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# **Analysis of the Existing State of Pakistan's Board of Investment**

January, 2011

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# Data Page

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# **Abstract:**

The Board of Investment (BOI) of Pakistan has been facing internal and external challenges to achieve its mandate and targets. Owing to factors beyond its control, such as law and order, the energy crisis, lack of infrastructure, etc., it is facing lack of capacity, governance, infrastructure and support. In response to USAID's request, Chemonics International Inc. engaged Grant Thornton Pakistan to undertake a diagnostic review of the BOI in the first phase, to be followed by a detailed restructuring through the placement of short-term personnel.

The opening chapters of this report provide the assignment background, scope of work, execution methodology, the investment profile of Pakistan, role of investment promotion agencies, international investment policy trends and the BOI "As Is" profile.

The core segments of this report encompass an analysis of the BOI's investment policy framework, legal & regulatory framework, business processes, management & organizational structure, legal, and ICT and MIS infrastructure in addition to financing, self-sustainability and consolidated recommendations. Furthermore, an analysis of the existing state of the BOI's beneficiaries and the outcome of the stakeholders' consultation, briefs on similar investment promotion agencies in the region and minutes of various meetings are given as annexes at end of the report.

# Acronyms

AASR	Anjum Asim Shahid Rahman
AEDB	Alternative Energy Development Board
ASEAN	Association of Southeast Asian Nations
ASIT	Advisory Services on Investment and Training
BEPZA	Bangladesh Export Processing Zone Authority
BIT	Bilateral Investment Treaties
BOI	Board of Investment (Pakistan)
CCOI	Cabinet Committee on Investment
CRMS	Compliance & Reporting Management Systems
ECC	Economic Coordination Committee
EDE	Electronic Data Exchange
FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FMIS	Financial Management Information System
FPCCI	Federation of Pakistan Chambers of Commerce & Industry
FTZ	Free Trade Zone
GOP	Government of Pakistan
HIC	Honorary Investment Councilor
HR	Human Resource
HRMIS	Human Resource Management Information Systems
ICC	Investor Consulting Centre
IDIMS	Investment Database & Information Management Systems
IK	Invest Korea
ISPAT	Investment Support & Promotion Agency
IT	Information Technology
IMF	International Monetary Fund
IRFM	Investor Registration & Facilitation Management Systems
IPDF	Infrastructure Project Development Facility
IOICCI	International Overseas Chamber of Commerce & Industry

JIB	Jordan Investment Board
JV	Joint Venture
KISC	Korea Investment Service Centre
KOTRA	Korea Trade Investment Promotion Agency
MIDA	Malaysian Investment Development Authority
MOU	Memorandum of Understanding
MSC	Multimedia Super Corridor
MIS	Management Information Systems
NGS	New Growth Strategy
OAMS	Operations and Administration Management Systems
OECD	Organization for Economic Cooperation and Development
PPD	Public-Private Sector Dialogue
PPIB	Private Power and Infrastructure Board
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SMEDA	Small and Medium Enterprise Development Authority
TDAP	Trade Development Authority of Pakistan



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# Executive Summary

Investment is a function of domestic savings and proceeds of trade surplus available for the creation of new goods and services in an increasingly efficient manner. For the sustainability of any economy, the quantum and quality of investment has to grow at least in tandem with the level of population growth, national consumption, and the pattern of consumption and aspiration of the populace for growth. To bridge the gap between domestic savings and net exports, investment requirements on the one hand and capital deficiency on the other, countries have to resort to foreign borrowing and foreign direct investment (FDI). FDI plays a very significant role in the economic growth of the world, particularly in developing countries. However, since 2008, FDI has undergone a continuous decline globally, and there is a growing competition amongst various FDI attracting countries to meet their increasing investment requirements. For this purpose, these countries have established specialized investment promotion agencies (IPAs).

The importance of the FDI is recognized in the recent official studies, reports, policies and strategy documents of Pakistan since it is also facing decline in investment/savings. FDI is being considered to be the oxygen for the survival and development of the Pakistani economy and its Board of Investment has been assigned the responsibility of attracting US\$ 2.0 billion in year 2012 and gradually raising this to a level of US\$ 5.5 billion by year 2017.

BOI Pakistan has been facing internal and external challenges to achieve its mandate & targets. Owing to factors beyond its control, such as law and order, the energy crisis, lack of infrastructure, etc., it is facing lack of capacity, governance, infrastructure and support. In response to USAID's request, Chemonics International Inc. engaged Grant Thornton Pakistan to undertake a diagnostic review of the BOI in the first phase, to be followed by a detailed restructuring through the placement of short-term personnel.

The opening chapters of this report provide the assignment background, scope of work, execution methodology, the investment profile of Pakistan, role of investment promotion agencies, international investment policy trends and the BOI "As Is" profile.

The core segments of this report encompass an analysis of the BOI's investment policy framework, legal & regulatory framework, business processes, management & organizational structure, legal, and ICT and MIS infrastructure in addition to financing, self-sustainability and consolidated recommendations. Furthermore, an analysis of the existing state of the BOI's beneficiaries and the outcome of the stakeholders' consultation, briefs on similar investment promotion agencies in the region and minutes of various meetings are given as annexes at end of the report.

The FDI Policy Framework summarizes the BOI mandate, outlines the FDI strategy & key findings, current implementation status, related key challenges and recommendations. It concludes that the policy framework needs more depth and

breadth and a focused approach. Institutional weaknesses are major barriers to developing and implementing the BOI's FDI policy and strategy initiatives. The BOI needs to strictly follow the rules of business in true spirit to deliver its mandate. The absence of institutional linkage between trade promotion mechanisms with BOI is a significant constraint to promoting FDI in Pakistan.

An overview of the legal & regulatory framework discusses the constituency of the BOI board, analysis of its legal & regulatory framework, expectations from the FDI strategy and investment policy, key gap areas and corresponding solutions thereof. The primary shortcoming was the absence of rules, regulations & policies for the BOI to smoothly function, as well as specific gaps identified within the SEZ Act of 2012. As a recommendation, a separate legal division within the BOI was proposed along with a separate setup for all SEZ related issues other than rules & regulations.

A review of business processes provides insight into the state of affairs of the existing business processes, their gaps and strategic recommendations to improve key areas. It discusses an analytical overview of each of the four components of the investment generation process and provides various conclusions. It concludes that the BOI should adopt a structured approach in its business processes and immediately develop an operational manual to perform various mandated functions within the BOI ordinance.

The analytical review of the BOI's management and organizational structure entails, in addition to a detailed assessment of staff competence and their job descriptions, a benchmarking of caliber in comparison with international IPAs to compare the staffing structure of BOI with global IPAs in comparable economies. It discusses the board of BOI, its chairman and managerial staff. It highlights the various shortcomings in the induction process, missing links of performance, compensation, infrastructure, HR system, key challenges and suitable recommendations to address these challenges. Major recommendations include designating the chairman of BOI as the Chairman of the BOI's board, hiring of a new Secretary from the private sector, establishment of an inter-ministerial standing committee headed by the Chairman of BOI. Organizational recommendations include the establishment of a proper HR department, induction of professionals at key management positions and establishment of backbone operational departments such as aftercare, business planning, project development, IT and M&E.

The ICT & MIS infrastructure portion provides a critical appraisal of the existing ICT infrastructure of the BOI, identifies current and potential bottlenecks, and makes recommendations on early initiatives and quick success areas in addition to describing the medium to long-term focus and development towards an enterprise-level MIS. Besides revamping the website structure, institutionalizing the reception management system and workflow management system, it provides a roadmap to BOI in terms of investor registration and facilitation, investor databases, financial management, HR, compliances and reporting, operations and administration etc.

The analysis of the existing state of the BOI beneficiaries and outcome of the stakeholders' consultation reveals that the BOI's Investment Policy and Strategy



Documents do not have public concurrence, awareness or acceptability. Major emphasis of the beneficiaries/stakeholder was on the absence of formal working relationships, its effectiveness in solving issues and inefficient back-office work in addition to severe managerial, professional and functional issues of the BOI.

The overall analysis concludes that although external factors are primarily responsible for the declining trend of FDI in Pakistan, a weak BOI has also contributed to not being able to make a strong case for Pakistan internally as well as externally. In order to catch up and be prepared to capitalize on future domestic and particularly FDI opportunities, it needs considerable multi-disciplinary capacity-building to deliver its mandate.



# **1. Background, Scope of Work and Execution Methodology of the Assignment**

## **1.1 Background of the Assignment**

The Board of Investment (BOI) is Pakistan's premier institution mandated with investment promotion and facilitation of local and foreign investors for speedy materialization of their projects/investment proposals and for recommending measures that are necessary to enhance Pakistan's international competitiveness and to accelerate the process of economic growth, overall amelioration of socio-economic conditions of its masses through increased productivity and improved service delivery. In this regard, the BOI's mission is to propose measures to create a continuously improving, investment friendly environment, provide exemplary leadership as the apex investment promotion body, enable provision of investment related information, support investors in meeting regulatory compliances and wherever required provide them with linkages to public and private sector towards more effective implementation.

With a view to achieving its mandated tasks, the BOI has updated its Draft Investment Policy 2011 with Draft Investment Policy 2012 and the Draft FDI Strategy for Pakistan 2010-2015 with Draft Investment Strategy for Pakistan 2012-16. These documents lay down strategic vision for increasing both domestic and foreign investments in Pakistan to readily attained level of US\$5.5 billion by 2017 from at least US\$2.00 billion in 2012.

The BOI requested USAID's technical assistance to create an analysis based support framework that can help it achieve its mandate of promoting domestic and foreign investment in Pakistan. Development of this framework requires technical experts to review the Investment Strategy and Investment Policy, analyze its structure and institutional capacities and propose a detailed plan to restructure the BOI to enhance its capabilities, analyze institutional framework and streamline business processes.

In order to create the BOI's required framework, the Project has engaged Grant Thornton Pakistan and awarded it the assignment.

## **1.2 Objective of the Assignment**

The objective of this assignment is/was for the Grant Thornton to analyze the existing overall financial, operational and human resource management systems at the BOI to identify immediate solutions for constraints that prevent BOI from effectively delivering its desired mandate. This analysis was also meant to identify requirements for key personnel, short and long term professionals, who can be placed within BOI to help improve capacity of existing systems.

### **1.3 Scope of the Assignment**

The scope of this assignment was divided into two Phases:

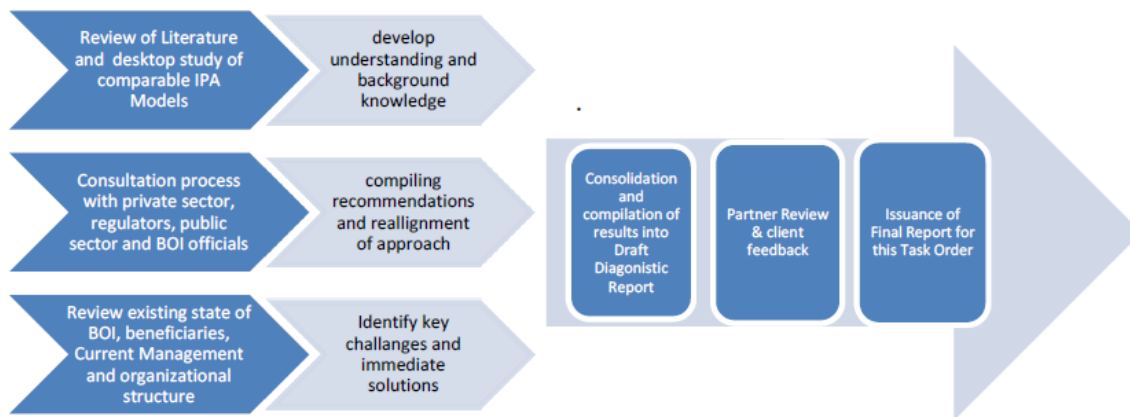
Phase I (Task Order 1 – the present Report) Grant Thornton was supposed to carry out a literature review of available information through primary and secondary resources and address the key questions as provided in the Task Order and present an overview of existing state of the BOI, its beneficiaries, current management and organizational structure and identify immediate solutions in terms of systems to help the BOI achieve its mandate. During this phase, Grant Thornton was also supposed to undertake a consultation round with private sector, public sector, regulators and USAID experts and also review the regulatory framework of the BOI.

Phase II (Task Order to be issued): Incorporating information obtained during Phase One, Grant Thornton shall propose placement of short term personnel who can help improve the BOI's current working capacity and further carry out the reforms process identified through the above analysis. Grant Thornton shall recommend the short term personnel and the final selection and acceptance will be made by the project, in consultation with the BOI. The short term personnel shall review the BOI's existing strategic business plan/strategy, arrange wide-based stakeholder consultation on the proposed strategy and, in light of consultations and an acceptable strategy document, analyze the BOI's structure and institutional capacities and propose a detailed plan to restructure the BOI to enhance its capabilities and streamline business processes including systems development that will include all existing financial and operational system.

The BOI however desired that the scope of Phase II should be extended to simultaneously commence the implementation of immediate recommendations made in this Report to quickly turnaround the BOI. The request of the BOI has in principal been agreed by the Client in the presentation meeting on the findings & recommendations of this Report held on 11 January 2013.

### **1.4 Execution Methodology of the Assignment – Phase- I**

Keeping in view the nature and scope of each specialized area, each expert followed his specific methodology as provided herein under, the overall methodology was however as under:



**Figure 1: Overall methodology**

### **Task 1: Review of Literature**

An in- depth review of existing literature and data was carried out to ensure an understanding of the current workings of the BOI. At this stage we identified some of the institutions of other countries with a successful record of Investment Promotion so as to include them in our study.

### **Task 2: Consultation Process**

The team carried out a round of meetings with the private sector (both organized and group levels), public sector, regulators, and related officials to primarily find out what the BOI should be doing to achieve its mandate and get a clear understanding on the issues and challenges being faced by the private sector in attracting investment in Pakistan. The format of the meetings was the introduction of the participants, a brief purpose of the meeting followed by presentation (attached as Annexure 4 to this Report) and then the key questions as above.

### **Task 2: Review Existing State of the BOI (Parallel Task)**

Simultaneous to the consultative process, our experts having already developed the understanding of the objectives as outlined in the FDI Strategies and Investment Policies documents, assessed the capacity and efficiency of the current financial & operational systems and business processes of the BOI through planned interviews, reviewing documentary trails, operational results and various performance evaluation parameters. This also entailed the assessment of current management and organizational structure from the perspective of their ability to achieve intended objectives.

- a. FDI Policy Framework Review
- b. Legal & Regulatory Framework Review
- c. Business Processes Review

- d. HR, Management & Organizational Structure Review
- e. ICT and MIS Review

### **Task 3: Consolidation & Compilation of Results**

After completing the activities as outlined above in Task 1 to 3, the team consolidated & compiled all of its findings and further collectively worked on the immediate solutions to help BOI achieve its mandate and targets set in the Draft Investment Policy 2012 and Draft FDI Strategy 2012-16. The draft inception report, deliverables of Task Order 1 were issued for comments. In addition, a presentation was also delivered to the client on the findings & recommendations made by Grant Thornton in the draft inception report.

### **Task 4: Partner Review of Draft Inception Report**

The draft Report was further re-reviewed by the Grant Thornton at partner level to ensure its conformity with the Task Order, quality assurance and bearing underlying documentary trail and his comments were incorporated.

### **Task 5: Client feedback and Finalization of Inception Report**

Upon receipt of the comments, the same were discussed amongst the team for incorporation in the Report. Once this was done, the final inception report has been issued to the client.

## **2. Investment Profile of Pakistan, Role of Investment Promotion Agencies (IPAs) and international Investment Policy Trends**

### **2.1 Investment**

Investment is the amount used for future production (capital, infrastructure, technology, education and training and improvement of human capital etc.) by foregoing expenditure for current or short term consumptions. Investments play a very significant role in the economic growth of any country. They enhance the productive capacity in terms of goods and services in an economy, improve technological innovations through embodiment of new techniques, both in terms modes of production and entrepreneurial skills and increases the employment opportunities of the growing population.

## 2.2 Domestic Investment

Investment is function of saving, and domestic savings in Pakistan are on decline. Domestic savings dropped from 13.6% in 2007-08 to 10.7% in 2011-12. Consequently, total investment in Pakistan also declined in last five years from 22.1% of GDP in 2007-08 to 10.9% in 2011-12 whereas GDP has also declined from average 7.5% in year 2002-07 to abysmally low level of 3.0% in 2011-12. Capital Markets in Pakistan – equity as well as bond markets – also could not play a significant role in mobilizing savings and allocating them for long term private sector projects, infrastructure and housing. The gap between domestic savings and investment requirements can be bridged by increased savings which under the present conditions prevailing in Pakistan is not possible and therefore foreign direct investment is considered to fill the saving/investment gap as is recognized in all the recent policy and strategy documents.

## 2.3 Foreign Direct Investment

In line with the New Growth Strategy of Pakistan (published by Planning commission of Pakistan), the Draft Investment Policy envisages achieving the previous record for FDI inflows of US \$ 5.5 billion a year that entails attracting net FDI inflow of at least US\$ 5.5 billion per year starting from US\$ 2.0 Billion in year 2012 and gradually raise to US\$5.5 Billion by year 2017 and ultimately to US\$ 122 billion by 2030.

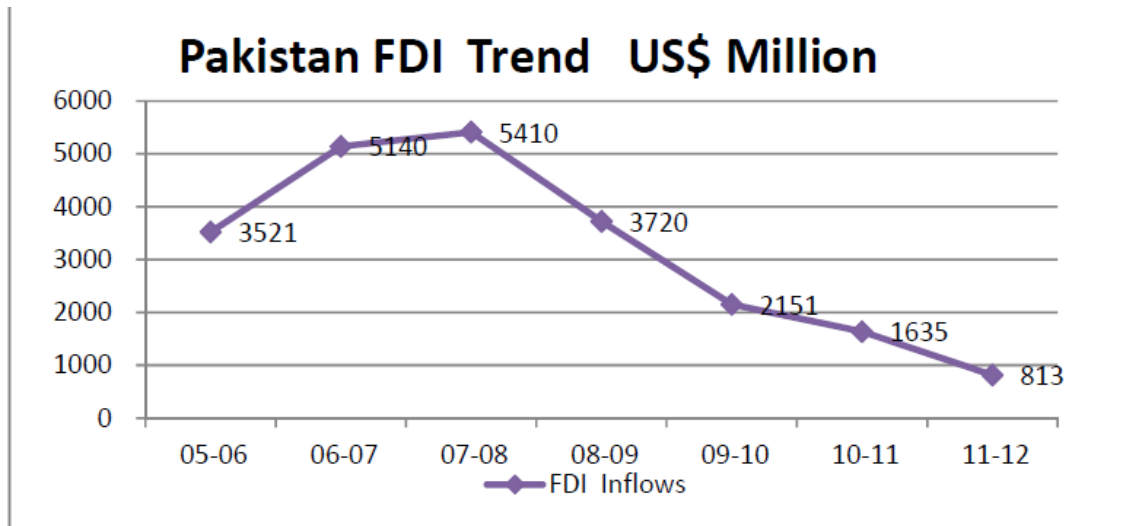
FDI in Pakistan rose from US\$ 322million in 2000-2001 to US\$ 3.52 billion in 2005-2006, and this continued to slowly grow till 2008, before falling again due to various reasons. According to the State Bank of Pakistan, net foreign direct investment (FDI) from July to September of 2012 was just US\$87 million, compared with \$US 263 million in the same period last year. The reported figures of FDI in Pakistan are being reported as net of Inflow and Outflow whereas the BOI is of the opinion that the same should be accounted for on gross basis, as under:

**Table 1: Outflow and inflow figures (Amount in US\$ billion)**

FDI	FY08	FY09	FY10	FY11	FY12
Gross Inflow	5.645	4.479	3.184	2.270	2.099
Gross Outflow	(0.235)	(0.760)	(1.034)	(0.635)	(1.278)
Net	5.410	3.720	2.151	1.635	0.821

Source: State Bank of Pakistan

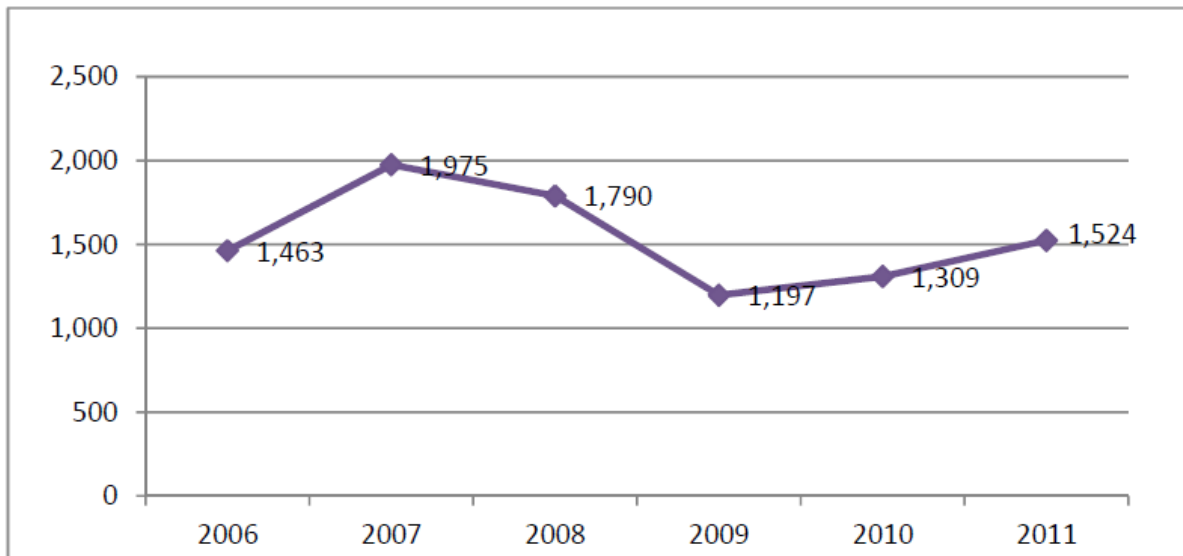
Based on net basis, the FDI trends of Pakistan in graphical terms are as under:



**Figure 2: FDI Trends in Pakistan**

In either measure/calculation, FDI is falling and this fall can be attributed to various factors ranging from the unstable political environment to recent terrorism.

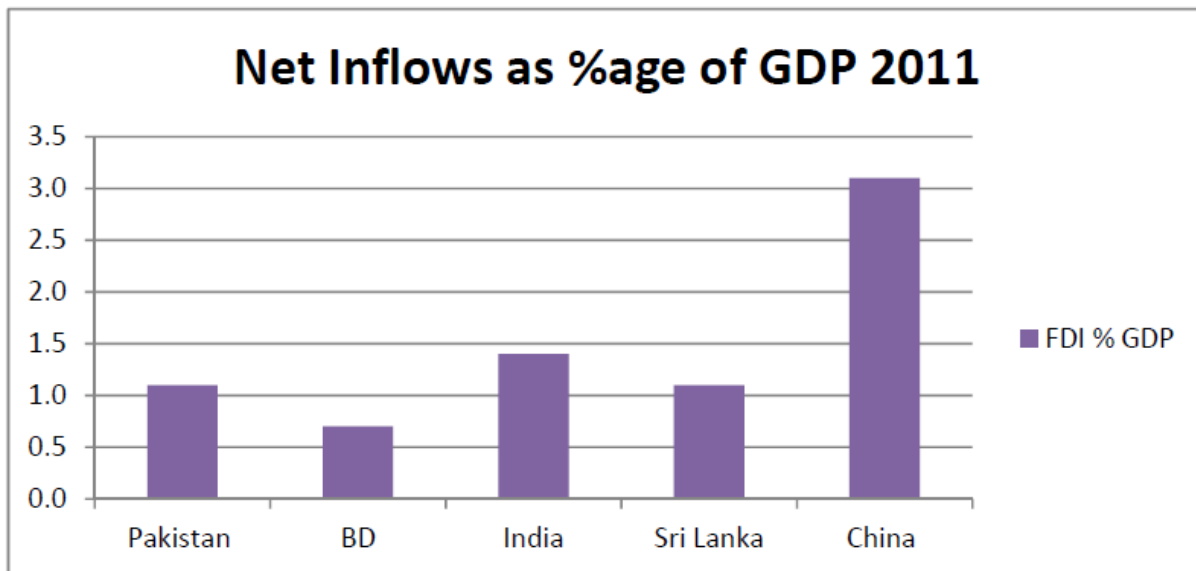
Moreover, it would be pertinent to mention the global FDI trends during the same period for the purpose of comparison.



**Figure 3: Global FDI trends (2006-11)**



The comparison of the regional Net-Inflows of FDI as percentage of GDPs is as under:



**Figure 4: Net inflows as percentage of GDP 2011**

#### **2.4 Role of Investment Promotion Agencies in Investment Promotion**

To understand the Board of Investment as an Investment promotion agency, an understanding of the overall investment framework and investment environment in which the BOI operates is required.

The global market for foreign direct investment has shrunk from US\$1.9 <sup>1</sup>billion to about US\$1.5 billion in year 2012 and resultantly countries are competing for the smaller pie through their specialized investment promotion agencies (IPAs) because investment promotion has proven an effective way to increase FDI. Research has shown that IPIs/IPAs in their effort to attract FDI, when targeted only specific sectors, received more than twice as much FDI as non- targeted sectors. Also government has been entreating FDI as a source of much needed capital & jobs but not valuing it more as a source of technology and knowhow to increase the overall competitiveness of their economies.

Having an effective and efficient IPA becoming important as long term projections show a moderate but steady rise with global FDI reaching US\$1.8 trillion in 2013 and US\$ 1.9 trillion in 2014, barring any macroeconomic shocks. Further Sovereign Wealth Funds (SWFs) with nearly US\$5 trillion under their management; have only cumulatively contributed only estimated US\$125 billion towards FDI in 2011. They still have significant potential for investment in development and they can work in partnerships with host country governments to invest in infrastructure, agriculture and industrial development, including the build-up of green growth industries.

<sup>1</sup> World Investment Report 2012- United Nations Conference on Trade and Development

The international production of Transnational Corporations (TNCs) is advancing, but they are still holding back from investing their record cash holdings. In 2011, foreign affiliates of TNCs employed an estimated 69<sup>2</sup>million workers, who generated US\$28 trillion in sales and US\$7 trillion in value added. TNCs are holding record levels of cash estimated at US\$ 5 trillion, which so far have not translated into sustained growth in investment. The current cash “overhang” may fuel a future surge in FDI.

Investment Promotion Agencies (IPAs) around the world attract foreign direct investment by promoting certain features that exist in their respective countries. Top FDI recipient countries, especially developing countries have large domestic markets with high GDP growth rate, are also well equipped with modern infrastructure and their business is friendlier compared to other countries with high scores of corruption perception index and high business start-up costs. The country characteristics, considered popular in attracting foreign investors mainly include financial & economic stability, political stability, labor force, geographical location, host country market size, competitive cost & easy set, infrastructure & energy, government policies & incentives and EPZ/SEZ availability etc.

## **2.5 International Investment Policy Trends 2012**

As per the World Investment Report 2012, many countries continue to liberalize and promote foreign investment in various industries to stimulate growth. At the same time, new regulatory and restrictive measures continue to be introduced, including for industrial policy reasons. They became manifest primarily in the adjustment of entry policies for foreign investors (in e.g. agriculture, pharmaceuticals); in extractive industries, including through nationalization and divestment requirements; and in a more critical approach towards outward FDI.

International investment policymaking is in flux. The annual number of new bilateral investment treaties (BITs) continues to decline, while regional investment policymaking is intensifying. Sustainable development is gaining prominence in international investment policymaking. Numerous ideas for reform of investor-state disputes settlement have emerged, but few have been put into action

Suppliers need support for compliance with Corporate Social Responsibility (CSR) codes. The CRS codes of TNCs often pose challenges for suppliers in developing countries (particularly small and medium sized enterprises), who have to comply with and report under multiple, fragmented standards. Policymakers can alleviate these challenges and create new opportunities for suppliers by incorporating CRS into enterprise development and capacity building programs. TNCs can also harmonize standards and reporting requirements at the industry level.

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<sup>2</sup> World Investment Report 2012- United Nations Conference on Trade and Development

### **3. Pakistan' Board of Investment (BOI) "As Is" Profile**

#### **3.1 Establishment of the BOI**

Board of Investment (BOI) was established in 1989 under the name of Pakistan Investment Board (PIB). Pakistan Investment Board (PIB) was renamed as Board of Investment and declared as part of the Prime Minister's Secretariat with effect from 1994 and the Prime Minister became the head of the Board. Thereafter, the Board of Investment was declared as an attached department of the Ministry of Industries & Production in 1996.

The Board of Investment was made an autonomous body by promulgating the BOI Ordinance in 2001. It was transferred to Ministry of Privatization & Investment in 2003. In October 2008 the Board of Investment became a division within the newly formed Ministry of Investment. Following a re-organization announced in 2009, the Ministry of Investment was abolished and Board of Investment was placed under the administrative control of Prime Minister's Secretariat. BOI with head office in Islamabad has presence in all the four provincial capitals of the Pakistan.

#### **3.2 Legal Status of the BOI**

The Board of Investment (BOI) is presently governed under the BOI Ordinance, 2001 (The Ordinance) which provides its establishment, Board of Directors, its Chairman, Secretary, Board Meetings, Functions, Finance & Accounts, provincial investment committees and various miscellaneous matters.

#### **3.3 Vision of the BOI**

As per the BOI's Year Book 2010-2011, following is the vision of BOI:

Promoting and facilitating domestic and foreign investments by enhancing Pakistan's international competitiveness and contributing to economic and social development.

#### **3.4 Mission of the BOI**

As the Yearbook 2010-2011, following is the mission of BOI:

- Proposing measures to create a steadily improving investment friendly environment
- Removing and simplifying outdated unnecessary procedures, approvals and legislation

- Developing effective working relationships with other Federal Government Organizations, provincial and district Governments, and Pakistan's missions abroad in target areas.
- Stimulating public-private partnership to attract investment.

### **3.5 Board of Directors**

The Board of BOI is constituted under Section 3 of the Ordinance and it comprises of twenty eight members including Prime Minister of Pakistan as the President of BOI. There are seven members representing government (including Prime Minister) and there are 21 members from the private sector.

### **3.6 Chairman, BOI**

Mr. [REDACTED] is the current Chairman of the Board of Investment, a position he has held since October 2008. He comes from a well known business family engaged in real estate, domestic & international trade, manufacturing, media and automotive sectors. He has also held the position of President of the Lasbela Chamber of Commerce & Industry and is basically a graduate from Fort Worth School of Aviation in Fort Worth, Texas, USA.

### **3.7 Secretary, BOI**

Mr. [REDACTED] is the present Secretary of Board of Investment. Since July 2012 Mr. [REDACTED] is a very senior bureaucrat with over 35 years rich experience with important national organizations such as Ministry of Commerce, Trade Development Authority of Pakistan, Federal Board of Revenue (FBR), Trade Organizations and Prime Minister's Secretariat in addition to two foreign postings in Indonesia and UK.

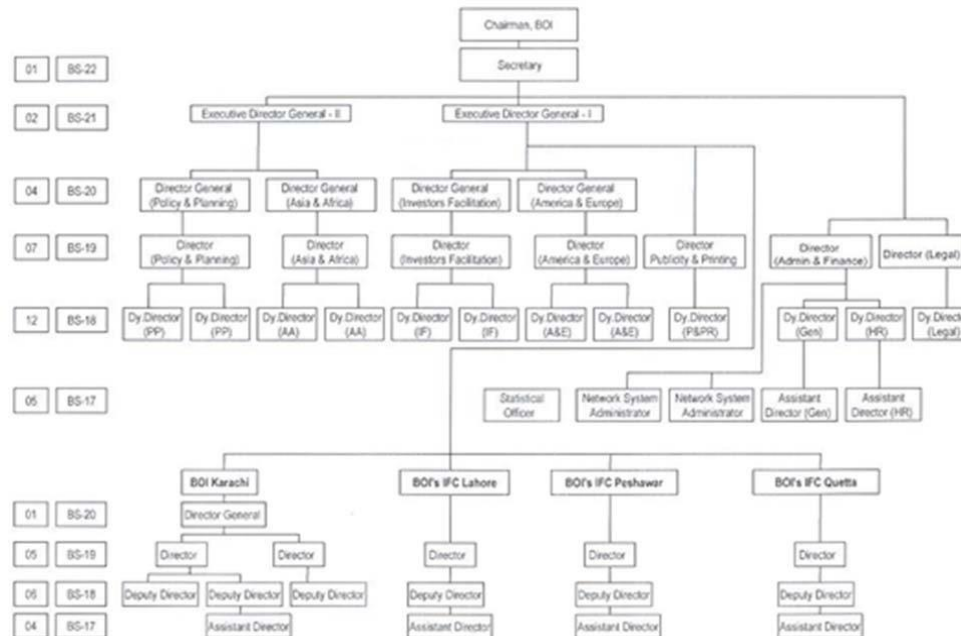
### **3.8 Key Management Staff of the BOI**

The following are the key managerial staff of BOI:

1. Mr. [REDACTED], Executive Director General
2. Mr. [REDACTED], Director General (A&A)
3. Mr. [REDACTED], Director General (America & Europe)
4. Dr. [REDACTED], Director General (Policy & Planning)
5. Mr. [REDACTED], Director General
6. Mrs. [REDACTED], Director General, (Karachi)

### 3.9 Present Organogram of the BOI

The present staff strength of BOI is 237 persons. 164 of which are stationed in head office in Islamabad, 44 persons are stationed in Karachi, 13 in Lahore, 9 in Quetta and 7 in Peshawar office.



**Figure 5: Present organogram of the BOI**

### 3.10 Functions of the BOI

- From time to time, reviewing the national investment policy and laws, and proposing any amendments, modifications and relaxations therein it may deem appropriate to the Cabinet for approval;
- Initiate and consider investment proposals and categories of investment which may require specific treatment and propose such incentives or conditions or criteria requiring rationalization of existing policies;
- Be associated by the Federal Government in the formulation of all policies which may impact the investment in Pakistan, including inter alia, economic, fiscal and trade policies;
- Identify and promote the investment opportunities in different sectors and their promotion in Pakistan and abroad;
- Coordinate with concerned Ministries, Departments, agencies and Provincial Governments with regard to policies and their implementation having impact on investment;
- Provide one window facilities for provision of all services and utilities to investors by concerned Federal and Provincial agencies;

- g. Deal with matters relating to National Industrial Zones as may be referred to it by the Federal Government;
- h. Monitor the progress of investment programs and projects at all stages and ensure, through inter-agency and inter-provincial coordination, prompt implementation and operation;
- i. Review investment promotion plans, formulate institutional arrangements, make transparent and simplified procedures and guidelines for investment promotion;
- j. Appraise, evaluate and process all investment proposals and projects received from the investors for submission to the Cabinet or a Committee of the Cabinet or the Board;
- k. Appoint commissions, expert bodies and consultants to study various aspects of attracting investment in all sectors and improving the investment climate, procedures and other related matters;
- l. Maintain a data-base of investment projects in the private sector that involve local and foreign capital;
- m. Negotiate and finalize agreements for protection and promotion of investment with other countries and represent Pakistan on regional and international organizations pertinent to investment promotion;
- n. Liaise with private sector trade bodies and associations for their active participation in promotion of investment;
- o. Collect, compile, analyze, maintain and distribute investment-related information and, from time to time publish periodical analytical reports in investment trends;
- p. Promote a congenial environment for investment by ensuring de-regulation and other measures to remove obstacles to investment;
- q. Develop a marketing, image-building and public relations strategy to generate interest in the potential and opportunities of the Pakistani market, and publicize its activities;
- r. Communicate all major important administrative, financial and policy matters to the management of business undertaking fallings within the purview of the investment policy approved by the Government;
- s. Establish Overseas Commissions consisting of prominent overseas Pakistani entrepreneurs and other individuals to act as investment promotion counselors purely in an honorary capacity;
- t. Consider individual investment proposals and categories of investment which require special treatment and recommend, where appropriate, additional incentives or relaxation of conditions or criteria required under existing policies.
- u. From time to time, determine and review the scale of fees and charges for services provided to the investors by it; and
- v. Any other function assigned by the Cabinet and the CCOI.

These functions are presently grouped under the following disciplines with support functions of Legal, HR, IT, Statistics, Finance & Accounts and Administration:

- Investment Facilitation
- Investment Promotion
- Policy and Planning

Moreover, the functional disciplines i.e. Investment Facilitation and Investment Promotion are geographically divided into two regions i.e. Europe & America and Asia and Africa.

### **3.11 Financing of the BOI**

The BOI being a governmental organization is receiving financial support from Government of Pakistan. It has however started charging fee on its services but the same is not sufficient to meet its financial requirements.

### **3.12 Challenges Faced by the BOI**

The BOI is facing various external and internal challenges. External challenges include law & order situation, energy crisis in the country, lack of desired level of infrastructure, lower labor productivity and inconsistent policy framework. Internally it is facing the challenges of poor quality of human resource, lack of rules & regulations, lack of supporting systems & procedures and financial constraints.

### **3.13 The Diagnostic Study**

This Diagnostic Study aims to explore the ways to make the BOI a successful IPA, thus focuses and with this background, , we embark on identifying the weaknesses/gaps in the overarching policy framework as well as in all of its four performances enabling pillars i.e. its legal framework, HR, IT and Business processes disciplines. Each of these aspects is being looked into in next chapters starting from the policy framework of BOI.

## 4. Analysis of Investment Policy Framework of Board of Investment


### 4.1 Mandate of the BOI in the context of Policy Framework

According to the Board of Investment Ordinance, 2001, the Board of Investment (BOI) is the “apex agency to promote, encourage and facilitate both local and foreign investment.” In terms of the preamble/objective of the Ordinance, the BOI is tasked with three major functions, namely, to:


- i) Promote and market abroad Pakistan as a profitable destination because of being an open economy, without any restrictions for entry or exit for any entrepreneur, domestic or foreign, competitive working environment, inexpensive labor force, presence of a large corps of highly educated, hard-working English speaking/known people. Moreover, the size of the country and its growing consumer base and its being a conduit to a market base of one third of the global population of the region provides vast opportunities of economies of scale in any productive field thus substantially reducing the cost of doing business etc., this function is consonance with the same function as outlined in the FDI Strategy under the same heading;
- ii) Take measures to encourage those individuals/institutions who have already made investments in Pakistan to retain their interest and business undertaking in Pakistan and incentivize to expand the range/scope of their investment and those who are expected to or are likely (potential) to invest in productive enterprises to make use of a wide range of raw material and manpower of Pakistan and to cater to a large market in almost all sectors of the economy particularly in the light of the policy frame work of 1978 of deregulation, liberalization and privatization., this takes care of the ‘mandate’ given to the BOI in the FDI Strategy as policy advocacy and ‘networking and coordinating in addition to the investment protection.
- iii) Devise measures to facilitate the existing, and potential investors in over-coming perceived and actual policy, bureaucratic, social, attitudinal and financial obstacles and difficulties and effectively assist the business community, both domestic and foreign, in resolving disputes snags/delays which are perceived to impinge upon the profitability of their production units or generate frustration amongst the investors.

In short, the BOI as an interface between the government and has been modeled on the lines of successful IPAs across the world which have achieved tremendous prosperity and well being of the people of those country through private sector investment activities. The FDI Strategy acknowledges that the BOI is “Pakistan’s highest consultative body on domestic and foreign private investments.”





### **Main Functions of IPAs – global context:**

- Image Building
  - Investor Facilitation and investor services
  - Investment Generation
- 

## **4.2 Strengths of BOI Structure**

While contemplating the ways and means of addressing the challenges to enable the BOI to gear up itself for developing the capacity and willingness to achieve the targets set in the draft Investment Policy and the FDI Strategy, the following strengths of the BOI needs highlighting:-

- The Ordinance 2001 makes it a reasonably deliverable apex government agency;
- The chairing of the Board by the Prime Minister gives it more than enough clout to carry out its mandated work efficiently;
- The functions assigned to it by the ordinance are the same which are given to other successful IPAs of the region. No other IPA has the mandate of being a regulatory agency or having any over-riding rights and privileges. The BOI has the authority of assisting visas to foreign investors and their workers and to issue work permits like most of the successful IPAs; and,

The very fact that the Prime Minister of the country is the head of this institution gives a clear message to the investor community, both domestic and foreign, the political commitment of the government and the entire policy to attracting, facilitating and protecting investment. The very organizational structure of the BOI makes it a reasonably powerful government entity to achieve its objectives if it efficiently reshapes its operations. This top level umbrella provided to the BOI the status of an important change agent and catalyst of the process of economic growth and development and

that all other regulatory agencies have to extend to it every possible assistance and help in achieving its mandatory targets as it is the prime body to supplement the efforts of the government for sustainable accelerated development and growth of the economy aimed at improving the quality of life of the populace.

The Board of the BOI has a large representation of the private sector (though some of the members have no background of doing large scale business or appear to have any insight of business or investment). Below the political leadership, which is norm in almost all the government entities, the BOI is headed by a federal secretary who is assisted by a hierarchical structure of officials-some of them are professionals but the majority has been drawn from the regular bureaucracy.

### 4.3 Highlights of FDI Strategy for Pakistan 2012-16

- i. The FDI Strategy highlights the proposition that the FDI “will have to play a crucial role in energizing Pakistan’s economy. It would not only provide the required amount of capital but also entails: transfer of the state of the art technology, ii) integration of domestic production into world-wide production and marketing chains, and iii) linkages with domestic businesses.” While net inflow of increasing quantum of FDI together with transfer of technology, modern ways of doing business, exploration and integration of markets, linkages with the domestic business enterprises is a sine qua non for accelerating the economic growth through productivity and opening up of new export markets and products, facilitation of the local investment and entrepreneurs is no less important for achieving the desired results.

Draft FDI Strategy for Pakistan 2012 – 16 comprises of:

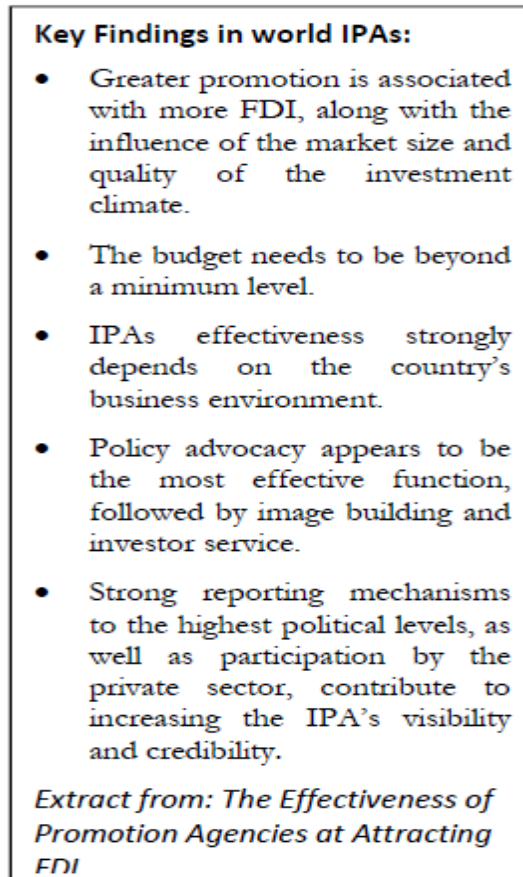
1. Description of the BOI mandate as per Section 9 of the Ordinance i.e.:
  - a) Policy advocacy,
  - b) Investment promotion,
  - c) Investment protection,
  - d) Investment facilitation. And
  - e) Networking and coordination.
2. FDI generation and international competitiveness
3. Pakistan economic targets i.e.:
  - a) Average growth rate of 7 – 8%,
  - b) Employment,
  - c) Building a knowledge based economy, and
  - d) Enhancing Pakistan global competitiveness rank to 50 by year 2030 from present 118 out of 142 benchmarked countries.
4. Seven action programs i.e. “Operational Windows” of FDI Strategy , namely:
  - a) Policy formulation & Public-Private Sector Dialogue (PPD)
  - b) FDI Promotion Campaign
  - c) Investment Facilitation (One Window)

- d) Development of Special Economic Zones (SEZs)
- e) Re-organization & Capacity Development of BOI
- f) Coordination Networks with Stakeholders Ministers
- g) BOI as self Financing Organization

The BOI has been mandated to achieve FDI targets as Investment Promotion Agency in the line with the world practice of achieving FDI targets through investment promotion agencies (IPAs). Salient features of some of successful IPAs in the region highlights that the main functions of the IPAs are: country promotion/marketing, policy advocacy, facilitation to the extent of providing key investment related information, issuance of work permits visas etc. and work as an interface between the government & non-government agencies and the existing and potential investors. It may be noted that no IPA has any regulatory function or over-ride the functions of another regulatory government agency.

#### **4.4 Findings on FDI Strategy**

1. The BOI has laid very little emphasis on local private sector investment development.
2. Rational and information for identification of industry sectors should be based on a collective national agenda for developing priority economic sectors.
3. In addition to traditional sectors being focused in the FDI strategy, more emphasis needs to be laid to other potential sectors like Education, Tourism, and Pharmaceuticals etc.
  - a) Public Private Dialogue initiative of the FDI Strategy and formulating Sector Advisory Boards should be achieved by adopting a cross disciplinary Think Tank Approach by the BOI in formulating sector identification and profiling for attracting and promoting as avenues for investment opportunities.
  - b) There are no clear linkages of the FDI strategy with the role of Planning Commission, FBR and other relevant government functionaries that are core in the economic development of Pakistan.
  - c) The selection criteria of markets for generating FDI is based on historical inflows rather than a research based strategy for exploiting new markets/avenues for tapping into for FDI.
  - d) Close linkage of trade promotion framework of Pakistan with BOI is missing. Trade triggers industrialization and services demand which leads to investment and therefore FDI/investment cannot be expected without an overlapping relationship of IPAs and TDAs.
  - e) There is no current focus on transfer of technology projects in the context of import substitution, sustainability and future exports (e.g. to invite telecommunication companies as service providers rather than manufacturing of phone. As per Federal Statistics Bureau, Pakistan has imported mobile phones worth PER 27 Billion in the last five months of calendar year 2012 only).



**Figure 6: Key Findings in world IPAs**

#### **a) Functions/Activities of the BOI**

With a view to achieving the tasks assigned to it, the BOI should have devised a comprehensive Investment Policy with well defined parameters of achievable goals commensurate with the over-all sustainable macro level economic growth and development by bridging the gap between savings/capital formation and social and economic surplus on the one hand and capital, technological and entrepreneurial requirements to achieve those targeted goals on the other. Investment by, both domestic and foreign entrepreneurs, is required and is to be encouraged not only in consumer and durable production sectors but also in intangibles and service sectors including technical education, skill development, infrastructure like energy development etc.

The investment policy should also identify the use of the tools to achieve those goals. And such investment policy should have been periodically reviewed and revised in the light of the results of the working of those tools, changing local, regional and global socio-economic, financial and technological environment, changing productivity of labor and capital with the employment of modern technology and methods of use of manpower.

Some of the tools for implementation of investment policy are: money supply, interest rates, exchange rate, duties structure and rates, labor market regulations, government spending particularly for improvement and enhancement of infrastructure, regulatory mechanism, judicial dispensation system particularly in respect of disputes resolution mechanism, the parameters of bilateral investment treaties (BITs), rules for public-private partnership/sovereign to sovereign joint ventures, various forms of media and interpersonal inter-action etc.

The formation and use of most of these tools, no doubt, fall within the purview of government agencies other than Investment Promotion Agencies (IPAs); This is the field where an IPAs policy advocacy role is so crucial and critical for marketing and maintaining the interest of investors not only intact but also growing with the passage of time. The policy advocacy role is so important to make Pakistan a highly competitive destination for prospective investors whose investment decisions are essentially based on risk/return analysis. A successful entrepreneur would prefer to a place which offers more competitive environment leading to higher returns with minimum of risks. Such a job cannot be effectively performed without having a research based organization with a credible data bank.

#### **b) Current State of the BOI – Policy Implementation**

No tangible progress has been made by the BOI on some very important points:

1. Establishing an institutional framework for coordination with the IPDF and PPIB with the World Bank for extending MIGA to investors.
2. No 'Disputes Resolution' mechanism/law to provide the comfort to the international investor community;
3. No institutional arrangement available for coordination with the Trade bodies of the country;
4. No data bank on foreign and domestic investors, information on tax policy, trade policy and other relevant requirements available,
5. No research mechanism for conducting research necessary for Policy Advocacy

#### **c) Current Situation**

After a thorough review of the relevant literature and holding a string of interviews and discussions with Chairman and Secretary and senior officials of the BOI, various private sector institutions, like Chambers of Commerce and Industry, the relevant public sector (including the regulatory agencies) senior officials, and some other stake holders, the following observations have been arrived at:

- The Chairman is fully committed to transform the BOI into a credible effective investor facilitation agency, but did not find the staffing situation as up to mark and that the required support was not forthcoming from the relevant regulatory

agencies (Please refer to the Minutes of Meeting held with Chairman BOI appearing in Annexure 20 of this Report).

- The Secretary was quite satisfied with the performance of the BOI despite lack of any support from his staff, resistance from the regulatory agencies, lingering global recession and external negative factors like energy crisis, law and order situation etc; He was also quite vary of non-cooperation by other regulatory entities of the Government of Pakistan, and wished the BOI to be given the powers of the relevant regulatory agencies.
- The senior officials were also satisfied with their performance despite the fact that there was huge potential for true appreciation of the mandate of the BOI and the nature of work and performance expected of them. There was a fair realization vacuum of the fact that the BOI was not only tasked to promote and facilitate foreign investors but also the local entrepreneurs as well. They openly admitted that the local investors do not approach them for any assistance.
- There was an air of complacency at the official level in the BOI though most of the senior officers were not short of complaints about absence of cooperation from the regulatory agencies.

#### **d) Key Challenges & Gaps**

1. The Prime Minister chairs the meetings of the BOI Board and due to his busy schedule; meetings of BOI do not take place for long periods.
2. In the wake of recent unpleasant experiences to materialize good investment projects, the Management of the BOI is emphasizing to give BOI regulatory status to enable it to tread upon the working of other entities in the given functional conditions of Pakistan. It is pertinent to mention here that as per survey conducted by Global Investment Promotion Best Practices 2012, a strong negative correlation between an IPA success at investment facilitation and it having responsibility for regulatory duties on top of its promotional ones.
3. The operational management is not clear about the BOI's role as provided for in its Ordinance.
4. No formal or institutional mechanism of coordination with the provincial Investment Boards (in Punjab and Sindh) or respective departments of the other provincial governments.
5. The BOI does not get conclusive approvals from Cabinet Committee on Investment (CCOI).
6. There is no clear understanding of the functions of the BOI amongst the officials
7. The officials are not trained and geared to conduct research required for Policy Advocacy or for forcefully steering the proposals through the CCOI.
8. The private sector does not appear to be satisfied with the lack of interaction of the BOI with trade business bodies/institutions or domestic businessmen;
9. There is no data-bank of any related facts and issues, nobody is trained or assigned the work of conducting research on precise identification of sectors and projects, the business operations in various fields and sectors,
10. The BOI has no research wing that could undertake serious studies on:

- i) productivity analysis, with relation to capital, environment, labor, technological development, etc.
  - ii) project identification for meeting domestic demand and for exports to the growing middle class in the region
  - iii) identification of local raw material and the projects that could make use of that material in a more economic manner
  - iv) preparation and periodic updating of a data bank of the local entrepreneurs, the nature and scope (in terms of production capacity) of their enterprises, their financial worth etc. to bring them in touch with foreign investors for joint ventures or equity participation
  - v) analysis of the impact of any set of protection(s) demanded by any prospective investor on other sectors of the economy and their ultimate impact on the national budget
  - vi) ongoing research and analysis of the impact of FDI on local environment, culture, economic growth and societal changes and particularly resource allocation particularly the possibilities of crowding out of financial resources by the foreign entrepreneurs and possibility of drying up of those limited resources for the local entrepreneurs etc.;
6. No work seems to have been done to revise the existing Bilateral Investment Treaties (BITs) and to bring uniformity in different treaties whose many clauses are at variance with each other. The BITs are signed for a specific period and not for infinite period. There is need to review all the BITs;
  7. The Secretary informed that the BOI can seek approvals of the Cabinet Committee on Investment (CCOI) only for signing of the MOUs and not on substantive issues like according some protective measures or tax holidays. For such approvals, the respective Ministries and Divisions take up the issues to the Economic Coordination Committee of the Cabinet (ECC). In most of the cases, the respective Ministries and Divisions either do not take up the issue to the ECC or do it after inordinate delay thus marring the interest of the investor;
  8. There is no formal or institutional mechanism of coordination with the provincial Investment Boards (in Punjab and Sindh) or the respective departments of other provincial governments with regard to attracting investments in the provinces.

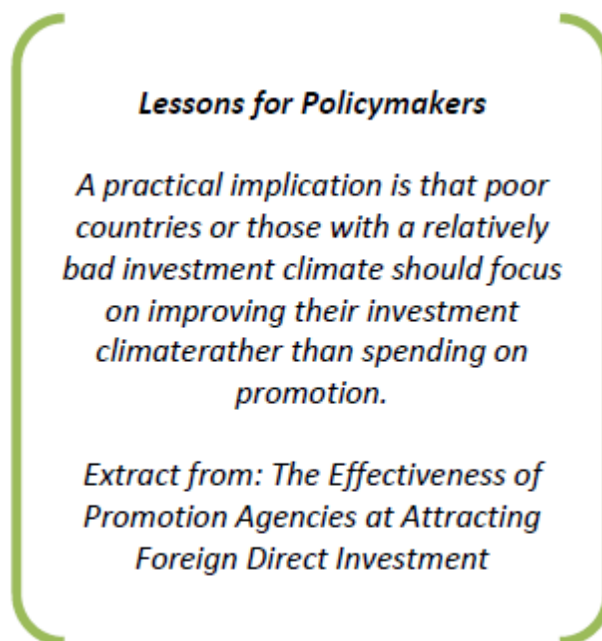
### **e) Recommendations**

1. The BOI should remain under the administrative control of Prime Minister Secretariat but the Chairman BOI henceforth should be made Chairman of the Board of BOI.
2. The composition of the BOI Board may be changed to include only such private sector high net worth entrepreneurs particularly engaged in those productive entities which are considered target projects or involve modern technologies, in addition to the Presidents of the Chambers of Commerce and Industry of all the provincial metropolis, academicians of international repute in the field of finance and economics.
3. From the public sector, Chairman, SECP and Governor State Bank of Pakistan should be included in the BOI Board besides a representative of Ministry of Commerce and Ministry of Foreign Affairs;

4. The new Secretary BOI should be hired from private/public sector having strong business/investment background with minimum of 15 years experience on market salary. Based on the outcome of the recommended performance audit, the staff of other managerial positions, where required be replaced with high caliber professionals.
5. The BOI should get constituted a Standing Inter-Ministerial Working Committee to deal with day to day investment related matters. This committee should be headed by the Chairman BOI and its members should be secretaries of related ministries and heads of utility organizations such as WAPDA and SNGPL etc.
6. The BOI should support/oversee Special Economic Zones Framework without indulging into its operational matters.
7. The role of Commercial Attaches in Consulates should be upgraded and they should be provided rigorous training and fully equipped to deal with the matters relating to inward investment promotion in Pakistan.
8. An elaborate Research and Policy Wing with qualified and capable research associates should be created in the BOI.
9. There should be close rather overlapping working relationship between the trade promotion framework and investment promotion framework to create a synergy in the larger national interest without compromising their respective rolls.
10. An institutional mechanism should be developed for coordination with the provincial governments for devising ways and means for according necessary clearances falling in their domain. This mechanism would be absolutely necessary for launching and successfully running of the Special Economic Zones (SEZs-The BOI to coordinate and pursue with the provincial governments;
11. The BOI had to create a Directorate General to establish ongoing coordination and liaison with various Chambers of Commerce and Industry, Karachi Stock Exchange, Trade/Commercial/Economic counselors/representatives and Honoree Councils of the target countries; - the BOI to initiate action.
12. The BOI is not a corporate entity (and it Foreign Direct Investment would be in fitness of things that it remains a Government entity to work as an effective facilitator), therefore, it may not be given a fully autonomous status. For hiring of professionals and establishing of flagship SEZs, it can generate reasonable funds by innovatively preparing PC-One and getting the schemes approved out of Development Funds. In the meanwhile some funding could be provided by the USAID.
13. It would be highly desirable, if the promotional/marketing material is thoroughly revised, in consultation with some newly appointed professional/Research Associates.
14. The BOI should focus on the Small and Medium Enterprises in its policies and operational frame work.
15. The BOI should establish institutional framework for coordination with the IPDF and PPIB for seeking approval of the government for provision of guarantees, insurances, performance bonds, and also to ascertain the mechanism and requirements for extending Multilateral Investment Guarantee Agency (MIGA) to the potential investors.



16. The BOI should initiate the process of developing a 'Disputes Resolution' mechanism/law that would provide the desired level of comfort to the international investors' community.
17. The BOI should set up the required Central Asia Trade and Investment Task Force in consultation and coordination with the Ministry of Commerce, Ministry of Communications (NHA), FBR and, also Ministries of Interior, Foreign Affairs, and States and Frontier Regions.
18. The BOI should initiate the process of gathering and analyzing data for 'Sectors through establishing Projects Identification and Development Department and start immediately preparing Pre-feasibility reports.



**Figure 7: Lessons for Policymakers**

**f) Timeframe for implementation of Recommendations**

The measures outlined above can be put in place in about six months except for selection and placement of the entire professional manpower.

## 5. Analysis of Legal & Regulatory Framework of Board of Investment

### 5.1 The BOI's Constitution

The BOI is established under Section 3 of the BOI Ordinance, 2001 (the "Ordinance"). The BOI is consisted of members from Public Sector and Private Sector. From Public Sector there are seven members as follows:

- i. Prime Minister of Pakistan
- ii. Chairman BOI
- iii. Minister for Finance and Economic Affairs
- iv. Minister for Industries and Production
- v. Deputy Chairman Planning Commission
- vi. Chairman FBR
- vii. Secretary Board of Investment

From Private Sector, there are 21 members which are from various trade associations, banks etc.

Cabinet Committee on Investment (the "CCOI") consists of ministers from relevant ministries and is tasked to review all investment proposals and make all investment related decisions.

Under Section 9 of the Ordinance, the BOI is assigned 22 functions.

Under Section 19 of the Ordinance, the BOI may require information from all other government departments and agencies to be provided within fortnight, and may also request them to review their decisions, policies etc. with respect to functions of the BOI. If a matter is not resolved, then the matter may be put before the CCOI to resolve the issue.

### 5.2 Analysis of Legal and Regulatory Framework

The mandate of the BOI is clearly delimited in the Ordinance, Investment Policy and FDI strategy. No hindrance exist from a legal point of view in achieving the results desired in all the three instruments.

From perusal of international best practices, it appears that a successful IPA has four main roles to play:

- Advocacy within Government to seek necessary approvals or urge the removal of obstacles to investment
- Image building to promote the country as an investment destination

- Investor servicing or facilitation to help solve problems faced by existing or potential investors
- Targeting or investment generation by actively seeking out investors based on national development plans or other criteria<sup>3</sup>

The functions as assigned to the BOI in the Ordinance cover all the above mentioned roles. Therefore, it is safe to state that the BOI Ordinance is comparable with successful IPAs in the world as can be calculated from the Peer Group Review Matrix appearing in Annexure 1. However, the problem lies in execution of the functions and responsibilities assigned to the BOI, which pertains to good governance and enforcement of legal provisions strictly rather than being a deficiency in the legal mandate.

### **5.3 Responsibilities of the BOI under the Special Economic Zones Act, 2012 (SEZ Act)**

It is to be noted that the SEZ Act has been passed by the Parliament and assented to by the President on 12th Aug, 2012; however, it was not notified to come into operation. Under Section 1(3) of the SEZ Act, the Federal Government may by notification in the official Gazette appoint a date for coming into effect of the Act. Hitherto, the Act has not been notified yet.

Under Section 8 of the SEZ Act, the functions of the BOI have been defined as under:

1. The BOI as the Secretariat of BOA and Approvals Committee shall:
  - a. Be responsible for the co-ordination of all activities pertaining to SEZs, developers and zone enterprises, including the preparation of all documentation for consideration by the BOA, and for ensuring the implementation of all decisions of the BOA;
  - b. process all zone applications submitted by SEZ Authorities for consideration of BOA;
  - c. process all applications for additional incentives in accordance with sub-section (2) of section 33;
  - d. review all development agreements proposed by SEZ Authorities;
  - e. be responsible for the international and domestic promotion of investments into SEZs; and
  - f. Facilitate the interaction of developers and zone enterprises with all other Federal, Provincial and other governmental authorities as well as with international financial and developmental institutions.
2. The BOI shall act as SEZ Authority for the Islamabad Capital Territory as provided in Section 12 of the SEZ Ordinance

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<sup>3</sup> See Policy Framework for Investment User's Toolkit, Chapter 2: Investment Promotion and Facilitation, published by

### 3. The BOI shall support and facilitate the SEZ Authorities, if requested.

Further, under Section 29, the BOI is assigned responsibility to act as a liaison among all ministries, SEZ Authorities, developers and enterprises. In addition to that the BOI shall act as a “one stop shop” for all concerned.

Under Section 40, the BOI is empowered to frame Rules and Regulations to implement the purposes of SEZ Act.

Under the SEZ Act, no fund has been established to finance the activities to be carried out pursuant to the responsibilities assigned to the BOI, Board of Approvals, and Approvals Committee. Therefore, the existing fund of the BOI is to be used to finance the functions of the BOI mandated under the SEZ Act.

## 5.4 Results Expected from the BOI in the Draft Investment Policy 2011

Under the Draft Investment Policy of Pakistan, 2011, the BOI has been assigned various tasks related to promotion of investment in terms of FDI in Pakistan. The following results, inter alia, have been expected from the BOI in the Draft Investment Policy 2011:

1. The BOI would coordinate with the Ministry of Industries and Production and other ministries to ensure that the Industrial Policies work to equally promote domestic and foreign investors (1.6)
2. The BOI would work closely with the Planning Commission to coordinate the implementation of the New Growth Framework and the Investment Policy to ensure that there is a mutual feedback loop where conditions are improved to attract foreign investment and that such investment is leveraged to achieve the national growth objectives. (1.6)
3. Registration of Foreign Companies entering and exiting Pakistan by the BOI (2.2.3)
4. Branch offices of foreign companies shall continue to be administered by the BOI (2.2.4)
5. The BOI will determine after working with SECP and Ministry of Finance that whether formation of Holding Companies is feasible and advisable (2.2.7)
6. The BOI to work with all ministries to improve the conditions for investment in all sectors (2.4.1)
7. The BOI to work with SECP, SBP and Ministry of Commerce to promote foreign investment in insurance, banking and financial sectors. (2.4.3)
8. A working group on investment Regime will be convened by the BOI to assess whether a modern investment law will be prepared (3.1.3)
9. Review of existing BITs with the leadership of the BOI and to approve a model BIT (3.1.4)
10. Establishment of domestic Arbitration mechanisms by the BOI and Ministry of Law and Justice (3.2.2)

11. Offering of Travel Insurance to be promoted, expanded and improved by the BOI and Ministry of Commerce (3.3.1)
12. The BOI shall coordinate with provincial investment promotion agencies to provide airport to airport security to foreign investors. (3.3.2)
13. The BOI shall cooperate in establishment of Commercial Security Commission (3.3.3)
14. Strengthening cooperation with AEDB (4.3.3)
15. Identification of opportunities which are available despite security situation and promotion of those opportunities by BOI (8.1.2)
16. Investment generation campaign by the BOI (8.1.3)
17. Professionals who can market projects shall be hired by the BOI and retained (8.1.7)
18. Strengthening of Investment Facilitation Wing in the BOI (8.2.1)
19. Managing the SEZs and providing one window facility of various regulatory bodies within the BOI (8.2.2)
20. Visa Facilitation by the BOI (8.3)

It is apparent from the aforementioned long list of expected activities, coordination and direct action on part of the BOI that the BOI has been provided a leadership role in promoting and generating foreign investment in Pakistan. Therefore, it is safe to assume that all initiatives regarding investment may be commenced by the BOI without any legal hindrance.

## 5.5 Comments on Draft Investment Policy 2012

In essence, the Draft Investment Policy 2012 of the BOI resembles with the Draft Investment Policy of 2011. However, it is pertinent to mention that some important aspects which were present in the 2011 policy are missing in the Draft of 2012. Further, the 2012 Draft has mentioned SEZ Policy. The policy regarding SEZ is incomplete and is just reiteration of the contents of the SEZ Act.

## 5.6 Results expected from BOI in Draft FDI Strategy 2011 to 2015

The Draft FDI Strategy also like Draft Investment Policy, 2011 has put great emphasis on leadership role of the BOI in generating FDI in Pakistan. Essentially, the said Strategy concentrates on restructuring the BOI by proposing various new activities for the BOI and creation of new wings within BOI to enhance its capabilities. Following are salient points regarding BOI discussed in the FDI Strategy:

- The FDI Strategy discusses the mandate of the BOI and it concludes that the mandate of BOI is exceptionally broad by international comparison
- There are some overlapping functions of the BOI with other agencies such as Small and Medium Enterprises Development Authority (SMEDA)<sup>4</sup> and

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<sup>4</sup> SMEDA is tasked under SEMDA Ordinance, 2002 to devise policy for small and medium enterprises and help those enterprises in establishing their businesses. The SMEDA also carries out all functions which are requisite to develop the Small and

Infrastructure Project Development Facility (IPDF)<sup>5</sup> as mentioned in the Draft FDI Strategy for Pakistan 2011-15.

- Public Private Dialogue to be initiated and regulated by the BOI
- To protect foreign investment in Pakistan, the BOI shall review and enhance the existing regime of BITs. Further, the BOI shall explore suitability of Project specific agreements for foreign investment, underwriting practices of MIGA and feasibility of combining investment protection instruments into security package
- Preparation of a modern Commercial Arbitration law
- Preparation of strengths, weakness, opportunities and threats analysis (SWOT analysis) in comparison to alternative investment locations by the BOI
- Establishment of database which shall have important investment and trade related statistics
- Investment generation campaign by the BOI
- Image enhancement campaign by the BOI
- One Window services regarding establishment of SEZs
- Preparation of SEZ Policy and implementation Regulations by the BOI
- Reorganization of the BOI:
  - ❖ Governance Structure
  - ❖ Operational Structure
  - ❖ BOI Board and Executive Committee; Policy Making
  - ❖ Senior Management
- Capacity Development of BOI:
  - ❖ Building Cooperative Networks
  - ❖ Upgrading BOI's Administrative Capacities
- Need for increased funding for the BOI
- Implementation of FDI strategy and achieving the desired goals

## 5.7 Comments on Draft FDI Strategy 2012 to 2016 of BOI

The Draft FDI Strategy 2012 to 2016 is essentially the same as Draft FDI Strategy 2011 to 2015. The amendments are minor and few aspects which were discussed in the 2011 to 2015 Strategy have been eliminated in the new Draft FDI Strategy.

## 5.8 Key Challenges & Gaps

The major shortcoming in achieving the desired goals is absence of Rules and Regulation necessary to effectively run the organization. At this point, delimiting the scope and extent of such Rules and Regulations is beyond the scope of this Inception

Medium Enterprises Sector. On the other hand, under the BOI Ordinance, 2001 the BOI is tasked to facilitate domestic investment which also include facilitating small and medium enterprises.

<sup>5</sup> IPDF is mandated to prepare proposals for development of infrastructure projects in different sectors and seek investment for those projects. On the other hand, the BOI is also tasked to prepare proposals for different sectors

Report. However, broadly speaking these Rules and Regulations shall encompass the creation of necessary departments inside the BOI, roles and functions of the officers and employees, policy making, administration of the Fund of BOI etc.

As a first step the following Rules, Regulations and Policies are required:

- General Rules to implement the BOI Ordinance, 2001
- BOI Employment Rules
- BOI Fund Rules (collection of fund and expenditure)
- Rules of Procedure for meetings of members of BOI
- Rules for establishment of sub-committees of BOI and their working
- BOI Rules for collection of fees and charges
- Rules and Regulations to implement the functions assigned to BOI under SEZ Act, 2012
- General Rules and all necessary Regulations under SEZ Act
- Comprehensive Policy for Special Economic Zones
- Devising internal strategy to implement the responsibilities assigned to the BOI under the
- Ordinance, Investment Policy and FDI Strategy
- Clear Framework and Policy for carrying out the required functions under the Investment
- Policy and FDI Strategy and designating the officers who are responsible for such functions
- Policy for coordination with other Government Department and protocols thereto
- Policy for coordination and cooperation with provincial investment agencies
- Detailed Policy for facilitating the investors after their decision to invest in Pakistan
- Policy for monitoring the performance of the BOI (a separate policy is encouraged since this is vital to improve the performance of BOI)
- Policy for periodic dialogue with potential investors

It is pertinent to mention here that this is not an exhaustive list of the required Rules, Regulations and Policies. After making these Rules, Regulations and Policies, the need for other policies will surface and help to devise future strategy.

There is a fundamental flaw in the SEZ Act, 2012 that it does not provide for a fund for financing the required functions to be carried out by the BOI. This deficiency has imposed an additional burden on the already available limited funds with the BOI. To cure this deficiency, it is recommended either to increase the funding of BOI for additional responsibilities of BOI or a separate fund may be established through amendment in the SEZ Act.

It is also recommended that as the BOI has been designated as Secretariat under the SEZ Act, the existing responsibilities of the BOI under the Ordinance should not be amalgamated with the responsibilities under the SEZ Act. To carry out the

responsibilities under the SEZ Act, a new department should be established within BOI having requisite funding and employees.

In addition to the above, there is need of an internal strategy to achieve the desired goals.

## **5.9 Analysis of current Management and organizational Structure**

Under Section 3(2) the Prime Minister of Pakistan is the President of the Board of BOI. From perusal of the successful IPAs in the world, it appears that usually an IPA is attached to the highest executive office in the country. In the case of Pakistan, the BOI is working under the Prime Minister Secretariat which is sufficient to indicate the importance of the BOI among other governmental institutions.

Under Section 17, the BOI has complete authority to recruit new employees or create posts. However, as noted above, there are no Rules which can effectively regulate the appointment of officers under Section 17.

The BOI needs to make on priority basis Rules under Section 23 of the Ordinance for employment of its officers along with their terms and conditions of employment. This step will safeguard the interests of both the BOI and its employees.

In the context of hiring employees for the BOI, it needs to be noted that transparency is required while hiring employees of BOI due to the widespread perception that majority of employees of BOI have been appointed on political basis which lack requisite qualifications. This aspect relates to good governance of the BOI.

Currently, the BOI is governed by a Board consisting of 28 members from both public as well as private sector. Under Section 7(2), it has been stipulated that the Board shall meet at least once every three months. However, arranging meetings for high officials of State and also for high representatives from private sector at such frequent intervals is difficult/impractical task. Due to this reason, in past, the meetings of the Board could not be held as mandated by law.

Due to the difficulty for arranging meetings of the Board of the BOI as mandated under law, the Board of the BOI needs to constitute small size sub-committee(s) as permitted under Section 22 of the Ordinance to carry out the functions assigned to BOI. The said Section fully empowers the Board of the BOI to establish sub-committees; therefore, there is no legal hindrance in the way of creation of sub-committees and delegating some functions of the BOI to them.

On the other hand, it is pertinent to point out that the composition of the Board is broad based and includes almost all important public and private sector officials which are sufficient for taking policy decisions. However, always there is a room for change. The members from private sector may be replaced with other members after thorough



review of the performance of existing Board Members in order to improve the overall performance of the BOI.

It is pertinent to mention here that since the SEZ Act has been passed, a new department needs to be established within the BOI which will exclusively deal with functions and responsibilities assigned under the SEZ Act.

## **6. ANALYSIS OF BOARD OF INVESTMENT'S BUSINESS PROCESSES**

Section 9 of the BOI Ordinance assigns 22 functions to the BOI which fall under the following broad categories:

- Policy & Planning
- Investor Facilitation
- Investment Promotion & Policy Advocacy
- Coordination
- Networking and Matchmaking
- Project Development & Appraisal
- Special Zones

These seven operational functions should have the standard support systems i.e. HR, Finance, Legal, M & E, Administration and IT. These functions and support framework are meant to achieve target of attracting FDI to the extent of US\$2 billion in year 2012 to US\$5.5 billion by 2017.

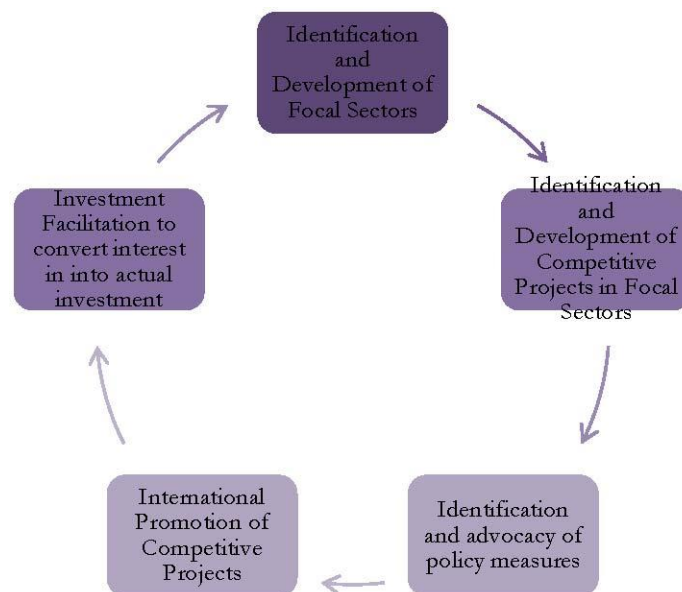
In the Year Book 2010-11, from amongst the 22 functions of BOI mentioned in the BOI Ordinance, 2001, only 13 functions have been highlighted as the major functions which means that 9 functions (c, i, j, n, p, q, r & t of Section of the BOI Ordinance 2001) are not considered as core ones and are less focused. Based on our assessment of the operations of BOI during this study, we also conclude that the BOI is either not taking up same number of functions or doing very little effort for said functions mentioned in BOI Ordinance.

As per the BOI's mandate, the underlying purpose for which it was established was the promotion, encouragement and facilitation of both local and foreign investment inflow in Pakistan. This means that these are the core businesses of the BOI. In order to generate foreign direct investment in a country, an Investment Promotion Agency undertakes several activities ranging from national image building and investment generation to investor servicing and policy advocacy. Investment generation involves identifying potential investors who may be interested in dialogue with the purpose of having them commit to an investment project in an IPA's host country.

This chapter focuses on the current investment generation functions carried out at the BOI and key items being looked at. An overall understanding of these business processes will be required to better determine and remove gaps in the operating systems enabling these processes (which will be discussed in the following chapter). Only then can we streamline all businesses (and systems responsible for the business) at the BOI and refocus its goals.

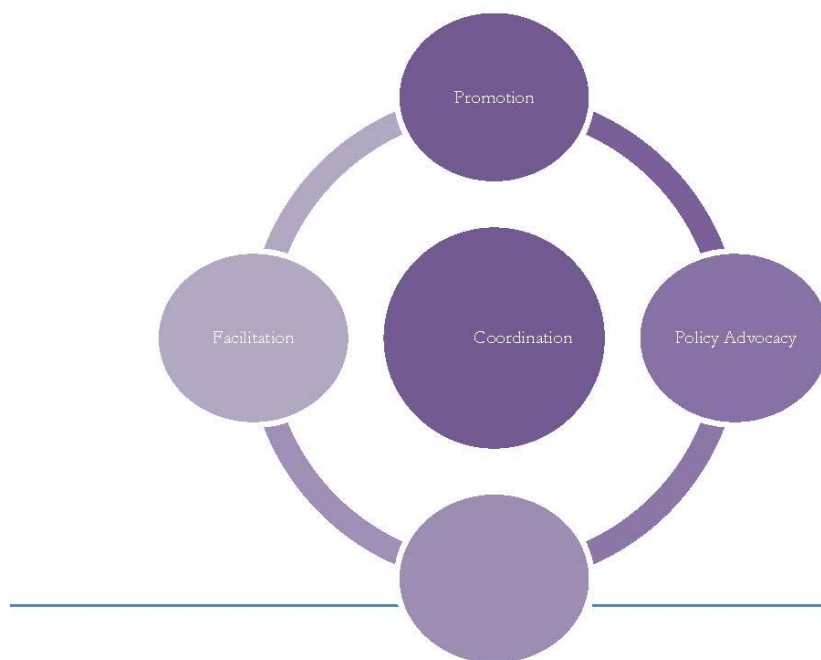
## 6.1 Investment Generation

BOI's investment generation strategy concentrates on identifying, developing, marketing and facilitating "Competitive Projects" in Pakistan in order to offer investors with risk/return ratios that are competitive with those provided by alternative countries or opportunities in the region. This can be seen in the figure below:



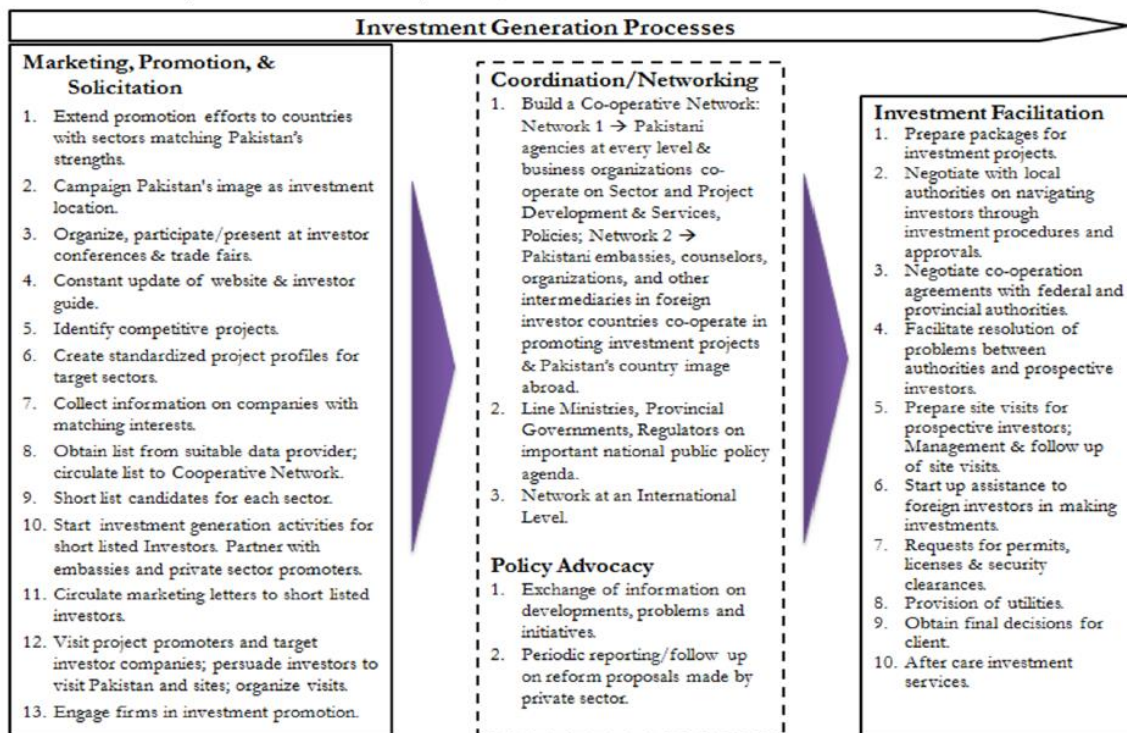
**Figure 8: Investment Generation**

As mentioned earlier, BOI's mandate encompasses promotion, encouragement and facilitation of local and foreign investment inflow in Pakistan. This is done through the following five avenues/business processes shown in the figure below:



**Figure 9: BOI's mandate**

The figure below is a detailed depiction of BOI's investment processes, which are discussed below.



**Figure 10: Investment Generation Process**

### **6.1.1 Investment Targeting & Promotion**

Investment promotion activities are those through which governments aim to attract FDI inflows. These activities include advertising, investment seminars and missions, participation in trade shows and exhibitions, distribution of literature, one-to-one direct marketing efforts, facilitating visits of prospective investors, matching prospective investors with local partners, help with obtaining permits and approvals, preparing project proposals, conducting feasibility studies and servicing investors whose projects have already become operational.

The underlying reason for investment promotion is that it tends to be a cost-effective way of increasing FDI, particularly in developing countries where information about business conditions is less readily available and rigid procedures tend to be more burdensome. The BOI of Pakistan, like many other IPAs, conducts certain activities to attract investors to the country. These promotional activities are divided between two divisions: The Americas and Europe and Asia and Africa, which are the main regions targeted by the BOI. Promotional activities carried out by both divisions are the same. However, upon inquiry, it was found that many functions crucial to successful promotion were left untouched. The following is a summary of the current promotional tactics carried out by the BOI, gaps in areas where they have been inefficient and challenges they are currently facing in competing with other regional alternative investment locations.

#### **a) Competitive Project Research & Development:**

The first stage in promotion is researching, analyzing and choosing competitive projects and viable investment opportunities in Pakistan. Currently, no research is actually conducted at the BOI. The relevant ministry/government department requests for a list of ready projects from provincial governments, which then assemble the required information of potential projects that have not already been picked up by donor agencies or already matched with other foreign investors and provide the same to BOI. The BOI does not check the accuracy or validity of the information and sends it directly to the foreign investors for getting their interest. Feasibility reports are created by the local government or consultant, as the case may be and the BOI merely acts as a channel for collecting the information and passing it to the relevant channels for necessary action. Similarly, no SWOT analysis is conducted by the BOI with regards to alternative investment locations.

In order for the BOI to remove inefficiencies regarding turnaround time of gathering data on competitive projects from local bodies and provincial governments, not to mention reduce any liability with regards to inaccurate or lack of information or redundancies, it is necessary that the BOI establish a separate research wing, delegated with the task of solely conducting research and establishing and maintaining a knowledge managed database and library. The BOI should also consider conducting their research based on splitting each region into its strengths and weaknesses to give them a better idea of FDI targeting a specific sector of economy which will help them in the next step of appropriately making matches with appropriate investors. This can be done by the BOI

making proper linkages with the Chambers of Commerce and industries working in various sectors of economy in the country and use their forum for creating comprehensive sector projects and pitch packs which can in turn be used for investment promotion and match making. This is the best method to understand how the economy in the country actually works and the most accurate research conducted and data gathered for every investment opportunity.

Updated databases of economic opportunities are an integral technological component of the BOI ordinance, which will assist in the promotion of investment, but have somehow been neglected in the past. Creation of these knowledge databases will also help in automating and constantly updating data for future use.

#### **b) Standardized project profiles for target sectors:**

A majority of IPAs target particular sectors to attract FDI. Sector targeting is considered to be a best practice by investment promotion professionals as the focus on a few priority sectors that play to the host country's strengths rather than attempt to attract all types of foreign investors allows the IPA to not only promote its country as a good place to do business, but will emphasize why its country is an ideal location for investors operating in these industries. Similarly, it will allow the IPA to present only at events specific to the industries it aims to attract. The idea behind targeting is that a more focused and tailored message that is delivered to a narrow audience will be more effective than general investment promotion activities. Currently, the BOI does target specific sectors including water and power, oil & gas, telecom etc. The priority given to these sectors makes for better and more selective match making.

#### **c) Match Making:**

It may be difficult for foreign investors to perceive profitable opportunities in a new country's economy, especially in smaller markets. Due to this reason, dealing with existing suppliers rather than making the effort to establish contacts with local firms may become a preference. Successful IPAs foresee this and they actively act as a vehicle to promote policies with their governments to encourage and expand linkages between foreign investors and domestic suppliers. Effective matchmaking caters to the specific requests of international investors by analyzing the investment project information/requirements, searching for potential projects to satisfy investor's needs, evaluating projects, and making recommendations to the investor. It also provides customized assistance to the investor throughout the matchmaking process and beyond.

Once the project is identified by the BOI, it circulates throughout its cooperative networks and extends its promotional efforts to countries and investors matching these strengths and similar interests. Candidates in each sector interested in partnering with local firms contact the BOI directly for information or to further pursue their interests. However, it is necessary that there exists an abundant project resource such as a database where the BOI can find and access detailed information on all projects.

Since the BOI currently does not assess the viability or feasibility of a project, when an interested investor poses them with a technical or specific question, the BOI contacts the local client or consultant to obtain further clarifications or information for the investor. Current staff in each promotion division is not capable of analyzing the correctness of a feasibility report nor are they qualified to create such reports themselves. This lack of an evaluating system, dedicated and qualified assessment team and updated database with information at their fingertips puts the BOI in a delicate position when investors require follow up of the local client. For this reason, a project and investor evaluating system should be set up where the investor credit, project feasibility and risk are assessed by the BOI itself.

Different processes in the BOI involve excessive red-tape and time wastage. A specific problem the BOI is struggling with includes lengthy project file turnaround time. The guiding policy, ESTA, makes it permissible for a paper file to stay with an employee for 1 week before a query is handled. With the current hierarchy at the BOI, it can pose extreme delays. It may be time for this policy to be revamped according to the ever changing and fast paced needs of the investment world.

#### **d) Campaign Pakistan's image as investment location:**

Enhancing and building the image of Pakistan is a foundation block in the process of attracting FDI. The idea is to spark investor interest in the location and overcome negative perceptions rather than directly persuading an international company to invest. The perceived investment climate is just as important as the actual one. The BOI, especially of a country undergoing rapid political or economic reform or emerging from a period of civil unrest, needs to create an image of Pakistan in the eyes of investors by addressing its negative perceptions. Image building does not only involve broad plans of improving investment climate but can address the more basic issues, such as the quality of services offered by immigration authorities and agencies responsible for granting visas. The BOI has been mandated with developing a marketing, image-building and public relations strategy and one step in the image building direction is the usage of Honorary Investment Councilors in over 70 countries who act as ambassadors of Pakistan and attracting investment by campaigning Pakistan's investment image. These individuals are successful people in the business community who are personally recommended by missions and embassies themselves. In addition to this, the BOI Ordinance places great importance on the negotiation and finalization of agreements protecting and promoting investments. This needs to be done in the true sense as it will assist the BOI in creating an image of Pakistan as a country where existing investors are not only protected but satisfied even after the process of having entered and set up in the country. Protecting older clientele is an excellent step towards attracting new investors.

There is a need to involve the education sector in internationally marketing Pakistan as an investment location. The BOI needs to involve specialists and academia in the actual policy making of the country, not to mention create think tanks to discuss initiatives,

issues, policy, conflict & disputes, which will improve the investment climate of Pakistan, an excellent aspect of promotion to new investors.

There is also a need for the BOI to start a publication, which is an essential part of marketing and campaigning Pakistan's investment image. At the moment, the BOI does not publish any activity that is being undertaken by them. The business community is uninformed on how they can assist the BOI in becoming instrumental in bringing in investment in different sectors. When local & foreign investors bring in large projects, these projects do not come to a close and this occurs due to a lack of outputs and results or even knowledge of projects in the pipeline. This makes it difficult for clients to move forward with their plans. For this reason, the research department should be creating an annual publication with their success stories, policy changes, effect on investment climate, and opportunities etc. and should print and distribute this publication to its private and public sector partners and embassies to target new investors and also establish itself as a protector of existing investment, contributing factors of better investment environments.

#### **e) Organize, participate & present at investor conferences & seminars:**

Personal contact is of great importance when trying to promote investment. Attracting investment requires that members of IPAs attend conferences and trade fairs, host visiting missions for foreign investors, organize meetings and seminars and conduct investment missions to other countries to get a better idea of potential investors, and also to present their own country's opportunities to the rest of the world. This is a good step in creating relationships and linkages between local and foreign investors. By meeting potential investors, the BOI can try to persuade them to visit sites in Pakistan and could offer to organize these visits. The BOI currently completes investor briefs for conferences and creates presentations which are sent to their overseas missions and embassies to be presented along with sending delegations to various countries for purposes of promoting investment and creating relationships.

Meetings with the private sector revealed that currently trade and investment conferences are being held without the inclusion of the BOI by TDAP. On the other end, the BOI does not plan its events properly and dates and venues keep changing. In 2011, an international investment conference was organized by the OICCI which was to include overseas investors; however, this was cancelled due to the BOI Chairman refusing to bring the PM for just 25 investors. On a more recent note, there has not been much follow-up of the D-8 summit. Such lapses cause all parties to lose out on investments. There is a need for better liaising of the BOI with other governmental bodies and Chambers in a manner where all bodies participate in these conferences and this can only be done through the creation of a singular forum where conferences are held. As all these investments bodies are moving towards a common goal, attracting investment to Pakistan, it is of the utmost importance that everyone is involved in the process to campaign Pakistan as an investment location and to find excellent opportunities. That is why there is a need for conferences to be held on a singular forum, where no one body works in isolation to set up conferences without the

coordination and consent of the other organizations in the country with a similar objective.

### **6.1.2 Coordination and Networking**

In promoting a country to foreign investors, it is important to have solid knowledge of proposed location and the key factors that may influence investment decisions. The BOI currently enlists the help and assistance of line ministries, provincial governments, and regulators on not only important national public policy agenda and queries for investors regarding policy changes or rules, but also to extract updated ready investment project information from every region and assist investors.

Involvement & development of networks of ministries, provincial governments, and other local bodies in the promotion of investment in their specific regions or provinces within the country needs to be improved in Pakistan. The BOI's dealings with private sector representatives should make them aware of the issues that revolve around many investment initiatives and policies that govern them. However, meetings with the private sector revealed that the BOI has been unable to consistently solicit the assistance and advice of many private sector business professionals to assist them during the various steps of investment promotion or policy changes.

The private sector feels it currently has no interaction with the BOI or its senior management, and except bureaucratic interaction no actual facilitation or coordination takes place, for example not being given enough importance in the D-8 meeting was a common complaint. Chambers and private sector representation support should be enlisted for the development of investment and all of them made aware of the BOI's vision for investment in Pakistan. In order to make their input heard, the BOI should create a cell solely responsible for interacting with the private sector with regards to investment matters, queries, advice on prominent issues and an alignment of goals. The BOI needs to translate its investment role to the private sector by marketing its product and liaising better.

Another major concern of the BOI is the occasional difficulty in collecting information from ministries & local governments or having issues relevant to that ministry resolved. This uncontrollable factor increases the turnaround time of an investment query for the BOI to quite an extent but better coordination and relationships could help lessen it.

The BOI board has been established with representatives from the private sector in order to increase their involvement. However, it was found that the Board has not met in a long time. This brings into question the need for existence of such a board if they have not discussed issues in a long time. Also, it was found that several people on the board are not selected based on merit but merely due to their personal relationships at the BOI. There is not only a necessity that meetings be made mandatory and on a more frequent basis but it should also be ensured that the Board representation be of people who are capable of understanding the workings for FDI, its promotion and facilitation,



and members removed who do not take interest in attending and replaced with individuals who are more keen about investment.

Many IPAs establish overseas offices to reach out to potential investors, and although the BOI is mandated to establish overseas commissions as per its mandate, it has continued to use consulates and embassies as their foreign representation to lower the costs and exploit the fact that often embassies are the first contact point for interested investors. The downside to this is the lack of training given to these individuals regarding this work and lack of priority assigned to this task. This is a crucial issue as the primary role of these individuals is to attract the attention of foreign investors and, where possible, initiate a first visit to the country. Currently in Pakistani embassies all over the world, there exists an un-concerted effort towards foreign investment. The BOI utilizes the services of Honorary Investment Councilors who are personally recommended by missions and embassies. However there need to be trained individuals who create a positive image of Pakistan on this end. Proactive individuals with a core focus and technical knowhow of investment and trade should be hired and retained, as opposed to those posted to the job without any merit, personal stake and accountability.

### **6.1.3 Policy Advocacy**

A major part of the BOI's mandate is to define or redefine strategic policy options through dialogue with government authorities on regulations having an impact on investment. As per its Ordinance, the BOI is responsible for reviewing the national investment policy and laws, coordinating with government bodies regarding policies and initiating sector investment proposals which may require specific treatment to propose incentives. It is understood that the BOI is not a substitute for regulatory reform but dealings with private sector representatives alongside the public sector, makes them aware of the issues and where improvements in the investment regime are mostly required. It serves as the intermediary between the government and the foreign investor as the main source of feedback to government policymakers on the concerns of foreign investors and cumbersome and redundant business requirements. If a foreign investor approaches the BOI with a concern that a policy conflicts with their specific investment's needs or merely a query, the BOI will write to the concerned ministry for follow up discussions and solutions to quickly abolish the problem and facilitate the investor. Within the BOI, all policy matters are referred to the legal and policy departments.

A majority of private sector and governmental bodies (as summarized in Chapter 11 and detailed in Minutes of Meetings provided as Annexure to this Report) feel that Pakistan's current investment policies are very satisfactory, however, only conceptually. A comparative study of economies dictated that Pakistan has the best policy for investment, but commitments in the policy are not being delivered. There is a need for the Government to follow through on commitments (approval times for licensing & banking need to be quickened since they go through the PM) and investors guaranteed that policies will not be changed with new governments.

Similarly, the private sector's perception is that investment policies are not being implemented. Several individuals at the BOI themselves feel that they do not follow their Ordinance, which is formed on the basis of the investment policy; this speaks very poorly of the alignment of goals and strategic direction of the institution.

Pakistan has struggled with an inconsistent investment enabling environment for many years. Presently, there are many issues with regards to setting up business in Pakistan and several laws that are not conducive to establishing a better investment climate and attracting foreign investment. There needs to be an improvement in the coordination of the BOI with authorities that are assigned the responsibility to establish many of these laws that should ideally be facilitating the investor, such as labor laws (they can consider suggesting assigning people in the cabinet to refurbish laws so as to increase availability of labor for foreign investors, women etc.), land authorities (consider, as a marketing tool, the provision of land for free), infrastructure laws (make these laws more cordial – the planning commission must play an active role in selling to an investor and this can be done by providing them with an assurance that they will provide them with the infrastructure when they invest), and utilities provision (better and quicker restoration and provision of utilities and lowering cost of utilities needs to be discussed). There is also an urgent need to try to influence the reduction of taxes, which can only be accomplished via intergovernmental coordination and improving liaising with the FBR. Through regular interaction and involving the private and public sectors and a reduction of the interaction of foreign companies with tax authorities, if an era of a graduated tax regime is brought forth and the BOI able to provide candid feedback on tax issues, it will be able to successfully attract investment that will provide long term benefits to Pakistan.

Being a part of the Government allows the BOI to influence the above factors that affect investment policies and new investment legislation and regulations. Studies indicate that IPAs which spend more time on policy advocacy were more successful in attracting investors.

Also, it is important to bear in mind that marketing/promotion will simultaneously need to be improved and revamped if the BOI intends to take full advantage of the liberalization and incentives of national investment policy.

#### **6.1.4 Investment Needs Assessment, Servicing and Facilitation:**

In its capacity as a facilitator, it is important to assess whether the BOI places sufficient emphasis on the needs of investors. Investment facilitation efforts are typically all those services provided by the BOI that include information and assistance that could significantly influence investors' decisions to locate in Pakistan or elsewhere. In other words, carefully prepared information and excellent customer service could sway some investors that would otherwise not select their locations. What this means is that it is not just about helping firms navigate administrative barriers.

Once the BOI starts to attract the interest of investors, it continues to provide post-investment decision services as to facilitate ongoing operations and satisfaction of existing investors. This is very crucial for the BOI because potential investors use the experience of already existent investors to finalize whether they will enter the business environment in Pakistan or not – therefore, post investment decision services need to be an integral component and centerpiece of the BOI's promotion strategy. Word of mouth from existing customers is incredibly crucial in comforting a potential investor in the prevailing business environment of Pakistan.

The BOI offers mostly pre investment services, including matchmaking services and the provision of domestic market information, which were discussed earlier. Services such as assisting international investors in local procedural hurdles such as site selection & visits, permits and licenses requests, visa issues, provision of utilities and all possible problems/queries the investors require assistance with according to their needs, are also provided. However, the private sector fears that the actual post investment services are limited or not followed through; it is their opinion that there is a heavy need for proper post-investment follow up.

A separate Investment Facilitation's division has been set up to assist targeted investors. However, the tasks carried out by this division are limited to visa issuances and license/permissions for setting up a branch and liaison office issues. The BOI has posted visa requirements on the website, however, if investors require such services through the BOI, they can directly consult the official investor facilitation contacts given on the website. In the case an investor requires a visa; the BOI has a 4 week "wait for response" period from ministries. If the relevant Ministry does not respond within that timeframe, it is assumed there is no issue and a visa is issued to the investor. The same is the case if an investor wants to set up a liaison or branch office in Pakistan, only the request time in this case is 6-8 weeks.

The BOI has been aiming to become a one-stop shop, delivering substantial savings for users by providing seamless, integrated and easily accessible points of contact. However, because of political/bureaucratic difficulties of authority resting with one agency and specialized agencies or ministries being involved in the investment facilitation process, the BOI is instead acting as a guide and coordinator to ensure that the investor finds the right national institutions or government departments to assist it with its needs, resolve any issues it may have with these authorities, negotiate agreements or acquire approvals etc.

Currently, there exist too many hurdles for investors as it takes approximately seventeen procedures to set up FDI in Pakistan. Since one of the BOI's policy guidelines is to increase the ease of doing business, it should remove as many hurdles as possible by advocating these changes in the investment policy and by acting as the main source of feedback to government policymakers on the concerns of foreign investors regarding cumbersome and redundant business requirements. In addition to these hurdles, due to persistent corruption on many levels, investors pay out several people in order to get tasks accomplished. Reducing the cost of doing business is also another integral guideline of the policy; therefore, after discussions with the private

sector and partner government bodies, the BOI should create a central point with a single fee so that investors do not have to deal with bureaucratic procedures, in turn, increasing their faith in the investment climate by not having to go through numerous costs of setting up in Pakistan.

It is worth mentioning that according to the BOI's mandate, it must act as a promoter and facilitator of both local and foreign investment. The private sector perception in this regard was that the BOI has failed to focus on the local market and on investment moving outward. Unfortunately, the BOI has not been successful in facilitating local investors and no attention had been paid to domestic commerce. (Peer IPAs discussed in chapter 3 have similar mandates but they provide more comprehensive promotion, facilitation and after care services that the BOI should consider conducting itself). The BOI must work towards acting as a Board of Investment for the entire Pakistan, not just foreign investors. This is because if Pakistanis fail to invest money anywhere else, foreign investors would not want to invest here either. This can only be done if the BOI act as a proper Investment Board for Pakistan.

## 6.2 Conclusion

In essence, the BOI was established to act as a marketing and servicing agent for investments in Pakistan. Realistically speaking, it has merely been acting as an intermediary between foreign investor and government bodies to help investors set up without actually playing any role in the key IPA activities of promotion, independent facilitation along with post investment follow up and policy reform via private sector input. If the BOI wishes to not only survive in the future but also compete with regional investment alternatives, it must remove the above gaps identified and strive to truly attain the goals listed in its ordinance (which are conceptually sound for an IPA).

Over the years, the BOI has failed to set any benchmarks or targets for its divisions and most jobs are tackled as they come with the mere expectation that they be done quickly. Currently, as none of the business processes have been documented in the form of an operations manual, new staff are set to the task of figuring jobs out as they come. Being a typical government environment, the commonplace attitude throughout the firm is that it is regulated by "Government Policy" and it is expected that in the absence of a senior officer, an immediate subordinate will handle all functions, irrespective of documented processes being available or not. It is felt that an investment process flow, along with timelines for work and accountability should exist. Detailed process flows for each division, however, should be created.

## 6.3 Summary of Key Recommendations

Following are some of the key recommendations based on the analysis of business processes of the BOI and the conclusions drawn from our review of operations:

- ✓ **Develop a Detailed Operations Manual to include process flows for each division along with:**

- a) Roles, work and accountability
- b) Internal service level agreements
- c) External inter-ministerial provisions
- Coordination, responsibility centers, turnaround time, deviation matrix and levels of authority
  - d) Private Sector Liaising Cell
- Process work flow, responsibilities, local private sector coordination, investment related policy linkages and consolidation
  - e) Availability of business process repository online
- Transparency and accountability
  - f) Post Investment (After Care) Services
- Service standards, responsibilities, follow-up methods

✓ **Promotion:**

- a) Establish separate research division i.e. maintenance of knowledge database and library
- b) Increase of automation and constant updates
- c) Create standardized profile for sectors –uniformity
- d) Review of hiring process of specialists placed abroad to promote Pakistan
- e) Assign investment targets to the Commercial Attaches working under the mandate of
- f) The ministry of commerce and industry in commercial consulates of Pakistan working across the globe.
- g) Creation of proper mechanism to pay de-motivated and existing employees before
- h) fresh hiring
- i) Put in place Investor Tracking System to move towards paperless documentation
- j) Update the BOI publication
- k) Singular forum for conferences i.e. all party involvement (no working in isolation)

✓ **Network & Coordination:**

- a) Create Private Sector Liaising Cell for interaction, queries, advice on prominent issues, and alignment of goals and re-appropriate personnel already existing in the BOI.

✓ Policy advocacy:

- a) Improvement in coordination of the BOI with government authorities and ministries establishing investment enabling laws to facilitate investors
- b) Policy to be more practical and sector specific

✓ Facilitation:

- a) Reduce costs of doing business through creation of singular fee□□increase transparency, removal of bureaucratic hurdles
- b) Increase in post investment follow up services to generate fresh investment via existing investors (word of mouth)

## **7. ANALYSIS OF BOARD OF INVESTMENT'S MANAGEMENT AND ORGANIZATION STRUCTURE**

### **7.1 The required caliber of People**

Investment promotion is a specialized activity. The Investment Promotion Agency (IPA) has to deal with highly qualified and experienced business community having a broader vision, practical exposure and knowledge of their respective economics as well as exact business needs. International IPAs have highly trained and qualified staff and therefore the BOI Pakistan needs to equip itself with equally trained professionals in order to deliver its mandate.

It is needless to say that training creates a huge impact and gives an edge over the competitors particularly in the current down times and deteriorating law and order situation where IPAs staff have to put extra efforts and show high level professionalism to compensate for aforesaid factors.

In the absence of effective and efficient HR Discipline, the level of service in the BOI has reached to such a deteriorated level that responding to email and a simple telephone enquiry has also become difficult.

### **7.2 Overview of the Board of the BOI**

Section 3 of the BOI Ordinance 2001 provides the establishment of Board of Investment and its Board. The present Board of the BOI comprises of twenty eight members of which seven represent government and twenty one represent the private sector. An analysis of the private sector board members reveals that only three members represent the organized business community i.e. Overseas International Chamber of

Commerce, Pakistan Federation of Chamber of Commerce and Industry and All Pakistan Textile Mills Association. The composition of the BOI Board should be changed to include high net worth entrepreneurs from the Private Sector, more elected representatives to the likes of representatives from the State Bank of Pakistan and Ministry of Commerce because there is close working relationship between investment and trade.

### **7.3 The Governance Aspect of the BOI**

Section 7 of the BOI Ordinance, 2001 provides that the Board shall meet at least once in every three months and the quorum for the Board meeting is equal to one third of total members present and presiding of the meetings by Chairman BOI in the absence of President and Vice President.

Due to the fact that Prime Minister is the President, the BOI Board could hold only 5 Board meetings in last 10 years as against 40 stipulated meetings. A close look of the agendas and minutes of the five meeting reveals that structured efforts have not been made on the part of Board to gradually develop the BOI from inside out with respect to its mandate, HR, processes, systems, finances, image, strategy, business planning and monitoring & evaluation etc. There has not been any minimum fixed agenda for the board meetings arising out of any organizational annual activity calendar and resultantly organization moved like a steering - less vehicle.

### **7.4 The Chairman BOI**

Sections 4 of the BOI Ordinance 2001 deals with the appointment of the Chairman of the BOI through the Federal Government on such terms and conditions as it may determine by notification in the official gazette and he will exercise such powers and perform such functions as may be assigned to him by the Board. Accordingly, this position has historically been held by political appointees and moreover the Chairman, as per Board authorization is authorized to act as CEO of BOI with the legal authority to administer, organize, manage and represent BOI with exception of the proposed authority of the Chairman to approve international official travel of BOI staff on account of GOP funds.

### **7.5 Overview of the Management**

The Management of the BOI mainly comprises of its Secretary, Executive Director Generals, Director Generals and directors.

BOI Ordinance 2001 (Section 5) deals with appointment of the Secretary of the BOI. This Section provides that the Federal Government may, either from the Federal Government or from the private sector, appoint a Secretary who shall attend meetings of the Board and perform such functions as the Chairman may assign. Section 5 further provides that the Secretary shall be principal staff officer and principal accounting officer of the BOI and shall have the status of the Secretary to the Federal Government.

Although the BOI Ordinance provides that the secretary can be opted from private sector, the qualification criteria stipulate mandatory government service experience. Accordingly the position by default has been held by public servants who were usually posted from various public offices and not necessarily investment specialists with corresponding international business exposure.

Since the Chairman is empowered to exercise all the powers delegated to him by the BOI's board and the Secretary has been provided the powers of chief staff officer as well as of principal accounting officer, the situation has created two power centers in the BOI and the employees not being clear of their roles, mandates and deliverables naturally tend to choose between the two. Resultantly, the organization stands invisibly divided.

Section 17 of the BOI Ordinance 2001 authorizes the BOI to make recruitments under the rules made with the prior approval of the Federal Government and that all appointments shall be made in accordance with the prescribed educational, technical or professional qualifications and experience required for the positions.

The appointment of executive director generals, director generals and directors are governed under SRO 1(KE)/99 dated 15 January 1999 issued by Cabinet Secretariat in pursuance of sub-rule 2) of the Rule 3 of the Civil Servants (Appointment and Transfer) Rules, 1973. As per this SRO the conditions of eligibility of the posts of executive director generals, director generals and directors are government services of various grades ranging from 17 to 20. The prescribed qualification for the positions of director generals and directors are 2nd class masters' degrees in economics/commerce/business administration /physics/ chemistry/ international relations/chemical/electronics or mechanical engineering. The eligibility criteria do not discuss the pre-requisite specialized experience for above managerial positions of national importance in the BOI and treats them as routine public posts.

A close look at the available job descriptions reveal that the BOI is more focused towards handling day to day issues and is not target oriented – more precisely the targets set in the Investment Policy and the FDI Strategy. At lower levels, there are many tasks in the job description whose transaction volume may be very negligible e.g. purchase of plant & machinery, stationary, payment of utility bills, issuance of identity cards, handling telephone lines etc.

The BOI has not developed any annual or periodic business plan or work budgets and accordingly individual objectives or targets are not set and thereby employees naturally remains confined to routine tasks. This is the reason why despite having sufficient number of staff and presence in all the provincial capitals in addition to the federal capital, they barely interact with their clients e.g. local chambers of commerce, business houses, leading consulting firms and media or concerned government agencies e.g. planning commission, interface ministries and autonomous bodies like Federal Board of



Revenue, State Bank of Pakistan and Securities and Exchange Commission of Pakistan and the most important – the international investor community.

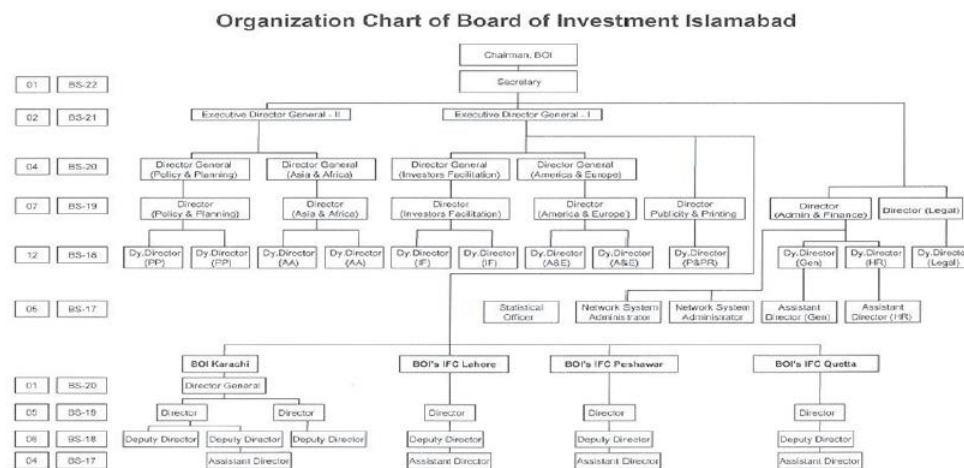
## **7.6 Caliber and Attitude of Management Staff**

We have interviewed a cross section of management staff of the BOI i.e. Director General (A& E), Director General (A & A), Director (A & A) Director (PP), Director Administration and Deputy Director HR. It is our considered opinion that there appears to be lack of professionalism and dedication amongst most of them. Resorting to routine work and not indulging in out of box thinking, they prefer to follow beaten track. The element of engagement and motivation was not at all found in any echelon of the management.

People were not clear about their job descriptions and surprisingly even the admin/HR departments were unaware of the distribution of work amongst various arms of the organizations. It was clearly evident that Territorial DGs never adopted a pro-active approach to promote and attract investment and rather waited for any prospective investor to approach Pakistani Mission abroad or them for facilitation. They seem to be shy of reaching out and contacting international business houses, renowned businessmen or taking any initiative in this direction. Talking about Honorary Investment Councils (HICs) Director (A & A) commented that they are normally dormant and at times, their personal vested interests inhibit them from promoting FDI for Pakistan.

A culture of inefficiency, complacency and lack of direction was observed in the BOI. They were quite satisfied with their own performance and attributed low FDI in Pakistan to external factors whereas by adopting proactive approach, resorting to efficient SOPs, clear division of work/job description and management by objectives, results could have been improved significantly.

## 7.7 Overview of existing Structure of the BOI



**Figure 11: Organization Chart of Board of Investment Islamabad**

With the background of general average staff strength of 26 professional worldwide with exceptions such as Ireland having staff strength over 280 qualified employees, there are 237 employees in the BOI as against approved strength of 282 persons. 75% of the existing staff belongs to secretarial & support disciplines i.e. Grade 14 and below. The regional breakup of staff is as under:

Islamabad	160 Officers/Officials & 4 Project Coordinators
Karachi	44 Officers/Officials
Lahore	13 Officers/Officials
Peshawar	07 Officers/Officials
Quetta	09 Officers/Officials

Executive Director General I has the mandate of looking after Investors' Facilitation and geographical areas of America & Europe, Besides, he has Director Publicity & Printing and four domestic regional offices in each provincial capital.

Executive Director General II (EDG II) has been tasked with Policy & Planning and looking after of geographical areas of Asia and Africa each looked after by respective Director General. EDG II also has the reporting of a Statistical Officer under his wings.

The Director Admin & Finance reports matters directly to the Secretary BOI, being assisted by Deputy Director Finance and Administration (General) and Deputy Director HR. As per international best practices and sensitivity of HR function, there should be a high level separate HR Department directly report to Secretary.

The Chairman is political appointee whereas the position of Secretary is equivalent to Federal Secretary i.e. Grade 22 officer. The positions of EDGs, DGs, Directors, Deputy Directors and Assistant Directors are of Grade 21, Grade 20, Grade 19, Grade 18 and Grade 17 respectively. There are 237 employees, 75% of which comprise of secretarial and support staff i.e. Grade 14 and below. This mix of employees has been setting the direction and pace of the BOI in cut throat competition with its regional competitors.

The present organizational structure is unable to provide mandated delivery foundations and needs to be horizontally expanded to provide necessary enabling arms and vertically contracted to reduce red tape-ism and make it efficient to deliver its mandate. The organogram needs to clearly reflect back office, front office and support functions in a systematic manner.

### **7.8 Service Coverage Mechanism of the BOI**

The organizational structure is geographically oriented. However considering the technology constrains and in order to put more focused efforts for speedy results, division on the basis of industries as well as the type of investment required is to be considered e.g. mergers & acquisitions, privatization or green field projects etc. This shall be looked at in more detail during the second phase of the present assignment while developing the detailed restructuring plan.

### **7.9 Missing links of Performance in the BOI**

Being an investment promotion & facilitation agency, the BOI must have marketable investment projects with corresponding acceptable terms sheet and having prior clearance of the concerned government departments/agencies. There is no single agency in the entire investment chain in Pakistan to take on this responsibility, therefore the BOI has to market whatever it gets or pushed for. Resultantly, after finding some potential investor for the deteriorated Pakistani market, the project gets held up in various inter ministerial procedures. Therefore the BOI ought to have a Project Development Division which will be in the form of a Private Sector Liaison Cell to coordinate between the public sector and the private sector for all investment generating activities.

The second issue BOI faces is the absence of a proper Research Department as identified in the preceding section of business processes. BOI needs to have a department which scientifically & objectively identifies target investors for its marketable projects to conduct SWOT analysis, carry out feasibility and identify potential targets etc.

Deployment abroad is politically motivated rather than with respect to what the jobs warrants. The pervasiveness of rules & regulations prevents managerial discretion. Standardized operations, coupled with high formalization, lead to centralized decision making. There seems to be little need for innovative, professional, and experienced

decision makers below the level of Chairman or the Secretary. Usually functional unit goals override the overall organizational goals/objectives.

### **7.10 Compensation at BOI**

The compensation system of the BOI is in line with compensation of regular government employees which is far less than the comparable individuals working in the private sector. Within the existing system, the BOI is constrained to hire professionals from the market and pay them attractive salaries in order to attract and retain.

The BOI being under administrative control of Prime Minister and being part of Prime Minister's Secretariat, a Summary has been moved by the BOI for Prime Ministers' approval for revision in the rate of its staff's allowance from the existing 10-20% to 100% of the basic pay in October 2012. The decision on the same is still pending.

### **7.11 Office Building & Equipment**

Performance enabling and client attraction environment such as office building aesthetics, staff and ICT are considered to be key multipliers for organizational output. The present head office building of the BOI and Lahore are not suitable to promote prestigious and iconic image of the BOI or for that matter of Pakistan. The BOI must change it and preferably shift to a purpose built building suitable for "one window" operations, having suitable meeting rooms, client working offices, training area, information centre, conference halls, sitting rooms in addition to its staff offices, administration support areas and other infrastructure facilities in the line with international best practices. The conventional old fashion furniture, out dated computers, printers and fax machines need to be done away with. State of the art communication equipment with modern efficiency generating office ware is need of the hour.

### **7.12 HR System of BOI**

The BOI is a service oriented organization and thus its success and delivery of mandate is dependent on the quality and professionalism of its staff – the more professional the staff, the more efficient and effective delivery of service. In order to attract and retain quality professionals especially from the private sector and abroad, a professionally run HR Department is an inescapable requirement. Though presently a position of Deputy Director exists in the BOI but it is mainly performing two irrelevant functions i.e. procurement and administration. In fact a very senior HR professional is required in BOI having caliber to a level of vice Chairman. The establishment of a fully functional and vibrant HR department cannot be over emphasized if the BOI wants to compete at regional or international level. Mere naming a Department as HR Department does not lead to requisite processes being followed.

In the absence of a professional HR Department, the quality of inductions and trainings has naturally been over looked. In such an operating environment one can manage &

survive with less talented and, hence, less costly middle & lower level managers. This is quite evident from the current incumbents' educational & experience profiles. For example there are 17 MBAs working within the BOI and hardly anyone from the renowned business schools, foreign or local.

Investment promotion is a specialized activity for which trained staff is not available of the shelf. Trainings make a huge difference in service oriented organizations like BOI who in order to succeed amongst its competitive regional IPAs, have to offer better or extraordinary professionalism especially in view of Pakistan's deteriorated external investment environment.

Global Investment Promotion Benchmarking Report 2009, a survey-based study of 96 GIPB-evaluated different practices between the best investment facilitators and weaker ones. According to the study the following HR steps are necessary for an effective IPA:

1. Building staff with public and private sector experience.
2. Offer salaries and bonuses closer to private sector standards.
3. Maintain English-speaking staff in sufficient numbers and with the full range of facilitation skills.
4. Continually train and develop staff, especially in soft skills.
5. Make facilitation a priority by training and dedicating an adequate proportion of staff.

### **7.13 HR Challenges of the BOI – in summary**

- a. HR Department per se is nonexistent.
- b. Business Plan is not developed and therefore employees are not given quantifiable targets.
- c. Frequent change of Secretary resulting in non-continuity of leadership/direction and push for results.
- d. There are no HR policies aiming at engaging and infusing efficiency amongst the staff and aligning their mindset to the overall objectives of the BOI.
- e. No compensation system to attract and retain talent and reward star performers.
- f. Hiring/placement of staff without requisite qualification and experience.
- g. There is serious lack of internal communication.
- h. Total absence of training and HR development for investment promotion and related courses.

### **7.14 Recommendations**

The BOI is currently focusing more on its 13 out of 22 functions assigned to it under Section 9 of the BOI Ordinance. We understand that BOI's existing structure reflects the necessary headcount needed for the delivery of said 13 functions but the capability of individuals & systems remain questionable. The absence of various rules & regulations necessary to perform mandated functions, standard operating procedures, untrained staff, least responsive query handling, unappreciable interaction with domestic business community & public sector and various other factors within the control of BOI

management, is clear evidence of incapable departmental heads as the will and discipline flaws from top to bottom.

In order to enable the BOI to deliver its mandate, our recommendations are as under:

1. The Board of Directors of the BOI should include highly influential overseas Pakistani businessmen in addition to the recommendations made in this context in the Policy Framework Chapter of this report.
2. Chairman BOI who has already been authorized to act as Chief Executive Officer by the Board of BOI in its meeting of 18 May 2010 with the legal authority to administer, organize, manage and represent BOI should fully focus on his extended role. He should complete internal restructuring of BOI as soon as possible.
3. The eligibility criteria of the positions of Secretary, Executive Director Generals, Director Generals and directors should be revisited so that the professionals having minimum of 15 years international business/investment/development experience with proven successful track records may qualify for this post from private sector. As immediate step, the new Secretary of the BOI should be taken from private sector and s/he should be given market based salary. The new Secretary should be selected by the re-constituted Board of the BOI and his/her appointment should be made by the federal government. Moreover, based on the output of recommended performance audit, the other top managerial staff, where required, should also be taken from private sector.
4. The BOI should strictly comply with its stipulated mode of transacting official business. It should ensure proper internal workings, undertake due consultation (with ministries/government departments etc.) and prepare comprehensive summaries/project proposals (backed by financial/economic/competitive due diligence) prior to putting up, for consideration of Cabinet Committee on Investment (CCOI) with right pleading. Note that CCOI is fully mandated to approve investment proposals and even consider relaxation in policies and incentives as proposed by the BOI.
5. Considering all the 22 mandated functions and supporting framework in the light of targets, the emerging organizational structure of the BOI should accommodate the following additional departments:
  - a) Formal HR Department headed by a professional from private sector preferably services industry. This department should directly report to the Secretary.
  - b) The BOI should have a proper Projects Department with service lines of Research (economics, industry & target investors etc), Coordination (back office: public, private, foreign in value chain), Project Development (feasibility) and Consultancy Section.
  - c) A full-fledged department titled "After Care" should be made part of the BOI for providing all time assistance/help to existing investors as generating business from existing client is always guaranteed and highly economical.

- d) Formal IT Department should be established at Director level having two sections i.e. a) handling data centre, IT infrastructure and Networking etc and b) ) MIS, process implementations and DBAs.
  - e) A Proper Business Planning/Budgeting Department should be established to develop quantifiable targets and objectives on ongoing basis.
  - f) A formal Monitoring & Evaluation Cell (a customized function of internal audit) should be established and placed directly under the Secretary for measuring performances against the stipulated results/indicators in addition to ensuring objectivity of action plan/ongoing activities.
  - g) Two specialized departments with regards to SEZs need to be created i.e. a) SEZ Secretariat reporting directly to the Secretary and b) SEZ Authority for Capital Territory of Islamabad.
6. It is recommended that the annual organizational activity calendar of the BOI should be developed by specifically determining the minimum agendas of the quarterly meetings to focus on both internal and external investment aspects. There should be regular meetings of Board of BOI.
7. The BOI should get done a Performance Audit and in the meanwhile, maintenance of time sheets of each officer and staff be made mandatory.
8. The quantum of support staff needs to be right sized. With the induction of professional staff in the officer cadre and fusion of ITC technology, a lot of support staff will become idle.
9. The present organizational structure needs to be horizontally expanded to provide necessary enabling functions and services and reduce the layers within the structure.
10. The organizational structure is geographically bifurcated and its division on the basis of sector/industries as well as the type of investment needs to be evaluated.
11. The compensation structure of the BOI to be based on a benchmark formula pegged to performance and targets to bring out the best in people, rather than one yardstick approach for compensating employees across the board.
12. A detailed business plan of the BOI should be developed to scale the HR Department, set performance targets and underlying performance evaluation parameters/KPIs.
13. The Investment Policy of Pakistan should be revised by taking into account the comments made by experts in this Report as well as the outcome of the stakeholders' consultations as provided in the Chapter 11 of this Report. This would serve as guideline to prepare Business Plan of the BOI.

14. The FDI Strategy of Pakistan should be revised by taking into account the comments made by experts in this Report as well as the outcome of the stakeholders' consultations as provided in the Chapter 11 of this Report. This would serve as guideline to prepare Business Plan of the BOI.
15. Long term National Agenda of Pakistan should be extracted in quantitative terms to facilitate in setting tangible investment targets by incorporating the same in Investment Policy and FDI Strategy of Pakistan and thereby further trickle down into the Business Plan of the BOI.

### **7.15 Measurement of Performance**

The proposed M&E Department will carry out the periodic appraisal of each department and the BOI as a whole entity against the stipulated targets/indicators. Simultaneously, the built in system of performance appraisal of staff will remain underway by the HR Department.

## **8. OVERVIEW OF INFORMATION & COMMUNICATION TECHNOLOGIES AND MANAGEMENT INFORMATION SYSTEM'S INFRASTRUCTURE**

### **8.1 Background**

A high level assessment of the BOI's IT needs was carried out by Deloitte Consulting in November, 2010 -for review by USAID -under the USAID Pakistan Trade Project. The assessment covered key areas and functional requirements, of a BOI Web Portal, Automation of processes. The assessment Report identified the pre-requisites of Hardware, Systems Software, Network and Communication Infrastructure & Services. Each of the areas assessed was described in terms of the current state, needs/gaps and suggested next steps.

The assessment took into its view existing hardware and software (operating systems and Microsoft Office packages) and basic computing capability requirements. Bills of Quantities (BOQs), Specifications and estimated Costs of the identified hardware and software requirements were also included in the assessment report along with a suggested stage-wise breakdown for procuring, installing and implementing the hardware, software, network and communication infrastructure. The assessment outlined certain key functional requirements, in terms of the automation and application



software needs of the BOI. However, it did not detail the enterprise wide areas and needs of MIS, as this was clearly not in the scope of the high level assessment. Nevertheless, the report suggested the need for a detailed study and design of MIS as a follow on stage and requirement.

## **8.2 Current State of BOI's ICT Infrastructure**

### **i) General**

Hardware and Network installed was procured under Stage 1 of the USAID funding and assistance. It has filled a critical gap in the BOI's ICT infrastructure by providing the key components of hardware and communication in a networked environment and resulted in a dedicated server room and data centre facility. The installed infrastructure needs to be utilized to the extent of its capacity and for improving the operations and overall management of the BOI. In real terms this means that with the assistance provided under Stage 1 by USAID, there would be the obvious expectation that by now demonstrable and meaningful utilization would have resulted -beyond basic word processing, spread sheeting, internet browsing and emailing facilities and capabilities. Unfortunately this is not the case and accordingly requires urgent attention.

While an IT capacity in terms of hardware and networking has been put in place, utilization is low in areas that can have a real impact on the BOI's operational efficiency, both internal and external. No customized or off-the-shelf applications have been implemented, to herald a start towards a business purpose and centric MIS.

However, user awareness of the need to put IT to work in their respective areas exists, including an eagerness for work applications that can enhance operational efficiency, management and reporting capabilities.

Apart from higher management, which is sensitive to the need for an overall Enterprise based MIS Environment, the majority of functional users are not too clear about the workings and relevance of an integrated applications environment and how this can impact their work methods. At the same time, superfluous mention is made of large ERP systems, without mention of the functional areas and business objectives that would precisely benefit from an ERP like SAP, Oracle Financials, etc.

### **ii) Hardware**

The Hardware in place at the BOI is listed in Annexure2 (list obtained from BOI). This includes hardware procured under the USAID Stage 1 support and also older equipment which was already in place before. The Annex identifies some additional hardware and upgrade requirements of the older systems, to bring them up to minimum specifications required for operations with the current operating software, the BOI Local Area Network and Internet, alongside the newer generation hardware.

## **Major Gaps & Issues**

- a. Older generation hardware, in place at the BOI before the newer generation hardware procured under the USAID assistance was introduced, is largely obsolete in terms of inadequate specifications that will neither support current operating software systems or functional user's requirements on the BOI LAN and Intranet.
- b. Annex A shows the current distribution of computer hardware. Some Departments/ Sections either lack computers altogether or are sharing and working with inadequate quantities or specifications. For example, the Accounts Department clearly has inadequate hardware quantity and the Mail and Filing Section has no computer hardware at all, not to mention awareness of what solutions can impact their legacy and manually managed work methods and style.
- c. The older generation hardware is unreliable and prone to frequent breakdowns and will be increasingly difficult to maintain or upgrade.

### **iii) Operating Software Licensing & Antivirus**

Operating Software / Microsoft Licensing at the Server Level was obtained under USAID Stage 1 Support.

#### **Major Gaps & Issues**

- a. Desktops are operating with unlicensed (pirated) Microsoft operating and Office software.
- b. The majority of hardware at the desktop levels is not protected by licensed Anti-virus software.

### **iv) Network & Communication**

Currently communication consists of a 2 MB dedicated (Fiber) internet connection from NTC. The BOI website is hosted on NTC. Email services are hired, from Nayatel Communications.

#### **Major Gaps & Issues**

- a. Virus Protection out of date.

### **v) Data Centre & Server Room**

A dedicated server room, also to serve as the future data centre, has been established. However the core IT supports functions, such as the IT / Network Administrator's office

is still on the ground floor. The Servers and UPS are more than adequate in terms specifications currently envisaged for the BOI's envisaged MIS databases and applications.

### **Major Gaps & Issues**

- a. While the server room has been established, the plan which also included creating space for IT support staff and in-house maintenance facilities to the same floor appears to suffering from a lack of momentum.
- b. Standard Operating Procedures (SOPs) for data backup, server optimization, etc. do not appear to have been documented for adopting and complying with accepted best practices.

### **vi) Website**

Developed in Jumla, through outsourcing; The content is being maintained and updated internally, in a limited way, which is reflected by some out of date information appearing on the web site.

### **Major Gaps & Issues**

The BOI website/portal constitutes an important image show case of the BOI internationally to potential investors. Therefore it is considered pertinent to highlight the gaps and issues in more detail; without digressing from the main focus of this report, which is the MIS requirement of the BOI. Therefore the observations below relate both to the aesthetic and technical aspects of the BOI website.

#### **1. Header:**

LOGO could be larger and bolder. Currently it's un-readable, especially what is written inside the actual LOGO.

For improving ease of use, navigation should come under "LOGO by Web 2.0". Header could be improved with a bolder color. The visitor should be able to differentiate between header and body of website. It should serve as heading rather normal text.

#### **2. Banner:**

The main banner could be larger to showcase latest events. Currently there is too much information congested into small space. Images used are not clear, and most of the captions are not formatted well. Photo strip used on the banner is redundant and it's not "clickable". Either is should not be used or the strip could be utilized for an image gallery. The banner seems to be split, whereas it's actually one. Preferably, the transparent background should be used only behind captions.

### 3. Body Area:

At present it is divided in 3 columns, which makes the overall look congested. This could be improved by reducing it to 2 columns instead. There should be a "I want to" drop down for the services like Apply for Online Visa Application; Query Management System; Apply for Online Branch Liaison Application; Apply for Company Registration, Apply for Airport Entry Pass. This will free up over-used space. Search should preferably appear at top inside the header. Success stories should be textual content rather represented simply by an icon. Instead of large heading with bold background some links can be adjusted as quick-links i.e. foreign direct investment inflows, Business match making, Potential projects, Investment policies, Investment map. Special coverage video could be played on the same page rather than taking the user's attention to the inner pages.

Overall, the number of boxes and columns need to be reduced as the information is dispersed and cluttered and not given to a quick and friendly browsing by a time conscious browsing visitor to the website.

### 4. Navigation:

The navigational structure is generally acceptable standards. However there is no need to repeat the top navigation in the inner pages. Drop downs are serving the purpose of accessing information from anywhere. Some inconsistency has been observed in menu links, some are clickable and some are not. Menu styling, which is currently overlaying, could be improved.

### 5. Inner Pages:

Search should appear at top inside the header instead of in the body. The page length can be reduced to use space more efficiently, by introducing accordions. For example in the Agriculture page, combining investment opportunities in agriculture, live stock, fisheries into an accordion and only selected category would then require expand, with the rest remaining collapsed, until clicked. The same can apply to other pages where content follows similar same scenarios i.e. the BOI Ordinance; in which chapters can be combined into accordions to reduce the page length. This will provide improved and easier reading to the BOI website visitor. If not dynamically done, remove most read boxes from the right panel. This will free up substantial space (with inner links already being removed).

Overall, there would be a larger bigger to depict clean content where pages are rich with text.

### 6. Security

If given the credentials for the website, a further technical analysis of the loopholes can be done.

Website security is possibly today's most overlooked aspect of securing the enterprise and should be a priority in any organization. Hackers are concentrating their efforts on web-based applications - shopping carts, forms, login pages, dynamic content, etc. Web applications are accessible 24 hours a day, 7 days a week and control valuable data. Since in the case of the BOI, integration with backend data is envisaged, giving direct access within the current architecture is not advisable, potentially exposing confidential (private domain) data and databases.

In addition, as web applications such as the BOI's are often tailor-made, they are tested less stringently than off-the-shelf software and are more likely to have undiscovered vulnerabilities.

## 7. Other Gaps & Issues

- a. The website is prone to hacking and attacks.
- b. Source Code & Documentation does not appear to have been handed over by organization that developed the website.
- c. There is no maintenance support contract with the developers of the website.
- d. Scanned documents placed on the website for reference are in a haphazard shape.

### vii) MIS & Application Software

Current MIS or even isolated productivity support modules that could be termed a beginning towards Automation initiatives are negligible. What exists are some initiatives by a few individuals in the organization, who have organized work in their respective sections by utilizing standard Microsoft Office capabilities (Word and Excel). However, such initiatives provide the basis for a study of requirements and preparing functional specifications of application software that can be selected and procured or developed. For example, the section handling visa requests has organized data and follows up mechanisms in MS Excel, providing the basis for understanding the functional specifications and business requirements of a Visa Facilitation and Management system.

### viii) Maintenance Support

Presently, maintenance support of hardware, network and user related issues, such as viruses, etc. relies on internal resources. Warranty period of the newer generation hardware procured under the USAID Stage 1 support has also expired. The website, to the extent of content management is done internally and has no further support from the developers. The advantages of outsourcing maintenance under an annualized

arrangement - as offered by private sector IT organizations - are in the knowledge of the IT staff. However, the subject does not appear to have come under a serious consideration by the management of the BOI.

a. Gaps & Issues

- a. No post warranty support arrangements for Hardware have been obtained.
- b. No outsourced support for improving the Web Portal or managing its content is in place.

### **8.3 ICT & MIS Requirements**

While current and persisting gaps in the BOI's ICT infrastructure are addressed progressively -to complete the process of an ICT infrastructure that the USAID support has initiated and given impetus to - more attention, in parallel, is required to the following objectives:

- a. Utilization of infrastructure in place, with an objective of making a start on the BOI's MIS through early interventions and potential quick success areas.
- b. Identifying areas that will constitute the BOI's enterprise environment, so that a clear roadmap, with priorities and action plans are formulated and adopted for implementation.

The restructuring and reorganization plans of the BOI will identify new areas of priority, which will require IT and MIS capabilities, as an important enabler, for the BOI to deliver effectively on its mandate of promoting, encouraging and facilitating investors and FDI. Even before any restructuring, the BOI needs to start utilizing some basic automation capabilities which are certainly possible with the given infrastructure. Restructuring and reorganization, including changes in the work methods and processes will bring its own challenges. Some early steps and initiatives will not only lay the foundations for the MIS that the reorganization will need, but will enable current organizational capacity and capability to cope better with the operations and management even as it currently conducted.

The broad areas that the ICT and MIS of the BOI require to focus on can be divided as follows:

**i) Operations**

The area that constitutes the administrative, logistics support infrastructure and core operational processes of the BOI, such as:

**a) Administrative**

These typically include support functions that require efficiency in organization and administration, for example:

- Reception Desk Management
- Security Management
- HR/Personnel Movements, Coordination, Attendance and
- Communication
- Motor Vehicles and Transport Management & Coordination
- Utilities and Assets Management.

#### **b) Core Business Support**

Functions that support and enable coordinating and managing the core business of the BOI more efficiently, for example:

- Visas application, facilitation and follow up.
- Visits & Meetings arrangements, protocol & coordination.
- Mail and Documents Scanning, Indexing, Filing and Archival.
- Local & Foreign Events & Exhibitions Participation & Management

#### **c) Government Interaction & Processes**

Functions that enable interface with the relevant government organizations (Ministries and related Departments) for a proactive follow up and interface, in accordance with governmental rules, procedures and processes:

- Submission of Proposals, Correspondence and Reports.
- Budget, Revenue & Expenditure Accounting & Reporting
- Policies compliance, Policy feedback & Proposals

#### **d) Management**

The areas that constitute the management of the BOI's main business and will enable the organization to "encourage" and "facilitate" foreign and local investment, such as:

##### **a. Investor Management**

Functions that manage and facilitate current and potential investors, through organized and well managed data, information and interaction, for example:

- Database and structured information of investors and investment opportunities, covering both current sectors as under the Government's stated policies and priorities and sectors/industries in which potential investors are showing increased interest to invest.

- Defined processes and procedures for handling initial investor enquiries, applications, Ministry and Departmental follow for facilitating investor's legal and procedural formalities.

#### b. Statistical & Data Management

Functions that will enable data Acquisition and Management of information and which the Investor, Government and other Stakeholders need to access and analyze for making policy and business decisions, based on a reliable repository of data and information, of current investments and future opportunities, for example:

- Consolidating available data and arranging statistical information in a manner that is meaningful for the potential investor, obtained from available sources such as State Bank, Bureau of Statistics, Federal Board of Revenue, Planning Department, etc.
- Enriching data and statistics with performance data of current investments, and forecasts based on data and information obtained directly by the BOI from investors, through its own defined continuous feedback processes and monitoring and evaluation (M&E) systems.

#### c. Image & Stakeholders Interface

Functions that are enabled and equipped with systems and processes enabling one window interface with Investors and Stakeholders and demonstrate the image of a vibrant, empowered and proactive the BOI for example:

- A website and portal through which the investor is able to obtain the maximum information and data to be attracted to the investment policies and opportunities of Pakistan.
- A repository of enquiry and application forms, which when completed, will activate processes within the BOI for immediate feedback, contact, follow up and be integrated with a database and internal/external reporting systems.
- A Reception desk, whether physical at the BOI or in the form of a 24/7 Call Centre or a Skype/Tele conferencing Facility, that is equipped by competent and skilled people who can provide the first level of information and guidance on how to proceed.
- A mechanism of follow up of investors and expressions of interest, anchored on accepted best marketing practices.

The above broad areas and some highlighted functions within the areas that need to utilize IT and define the MIS environment of the BOI should enable appreciating the current gaps and the work that needs to be done to equip the BOI with a business centric ICT infrastructure and MIS.



Some of the MIS initiatives can commence and do not need to wait on reorganization, as these provide efficiency to certain functional areas, which in turn releases capacity to focus on any proposed restructuring and reorganization. Some of the other MIS initiatives can wait until the enterprise and organizational view of the BOI is clear, following any restructuring.

#### **8.4 Strategic Approach & Phases**

The strategic approach and phases that the BOI can adopt, for making a start to select, procure and implement an MIS, concurrently with further enhancements in its ICT Infrastructure, include:

##### **i. Defining the Enterprise Environment & Requirements**

This involves defining the high level Enterprise Environment of the BOI, representing the broad areas of its business segments, the objectives and functions of each segment and the database and interactions between functions, processes and databases. It has business architecture rather than a technical architecture perspective and is suggested as the first step that the BOI needs to undertake towards selecting, procuring and implementing MIS modules and solutions. Most importantly, it enables a clear visualization for senior business management and leaders and helps in understanding why some areas do not need to wait on others to be clear, from an MIS implementation viewpoint. Further, how some priority areas can be taken up immediately, as early initiatives and quick successes towards automation.

##### **ii) Early Interventions & Quick Success Areas**

Concurrently with defining the enterprise environment, there will be immediate areas that can benefit from early interventions and constitute quick successes. Some of these are:

##### **a. Redesigning the Website and Web Portal and ensuring that Procedures and Processes are implemented for its content update and continuous enhancements, including adding to investor focused online forms and templates.**

While outsourcing the redesign and development of the current website (or improving it if the current architecture enables its connectivity and integration with envisaged databases and back office applications, added security requires particular attention. Additional services such as Acunetix WVS automatically check web applications for SQL Injection, XSS & other web vulnerabilities. A service provider representing such services and locally present or preferably in the MEA Region – providing deployment and adoption of such services in medium and large enterprise environments – should be selected and the product/services procured.

- b. Implementing a document scanning and workflow management system in the Filing and Mail Management section, for improving the current documents and mail tracking capability.

Ideally, the BOI should operate in a paperless environment. However, this is an unrealistic objective in the immediate and short term, given current work culture which is mainly derived from governmental environment. A process re-engineering will have to be undertaken first, concurrently with or following any restructuring and reorganization, as envisaged.

However, a hybrid is a more realistic objective. It entails combining visibility of physical documents with a work flow based document scanning, bar code labeling and tracking system, employing indexing of documents resembling current filing/archiving methods.

Such a hybrid system, taking a phased approach towards a paperless environment (keeping within government's rules for audit visibility) can be sourced locally, at low cost and risk. To cite an example that is in the process of such a successful transition and implementation is the FATA Secretariat in Peshawar (presumably supported by USAID and World Bank) is one that can be visited and studied.

- c. Implementing a Reception management system, handling the BOI employees' attendance, current location and movements and providing coordination, reception and meetings planning of external visitors and investors.

A logical progression by an investor that starts externally (through the web portal or correspondence) is a physical visit and meetings at the BOI. A reception and visitors management system, covering both pre-planned and walk in visitors is important for improving the image of the BOI. Currently, the drive in visitor encounters an empty and unattended reception desk inside the main the BOI building. Visitors who park across the road from the BOI building currently have to enter through a heavy steel door into a sparse reception room occupied by one or two disinterested ladies sitting at empty tales. Occasionally, after taking due measure of the appearance of the visitor, they would venture to ask what the purpose of the visit is and who is the person being visited.

This overall aura does not make for projecting the image of an important institution with a vision to promote, encourage and facilitate investment.

A quantum and immediate improvement is suggested by introducing an on-line appointments system, combined with systems that additionally provide reception desk facilities, an RFID or bar-coded card based visiting system (differentiating between different categories of visitors) to give due protocol and visibility to foreign visitors and potential investors.

Such reception and visitor management systems are available off-the-shelf. A system that combines reception with security functions, integrates with on-line

appointment systems, meetings planning and coordination, etc. can be procured and introduced at low cost of ownership and support overheads. There are several locally developed and integrated systems available. For example, systems implemented by the UN mission offices, World Bank, etc. which are both proven and have been through some stringent testing and selection procedures can be considered.

- d. Some other quick successes areas that can bring about operational efficiency involve studying in detail the work methods and organization done at a “desk level through individual and section level initiatives. The visas application and follow up system, organized by the personal interest and initiative of an individual of the section is an example. The Excel spreadsheet used by the section is a starting point for documenting a requirements specification and selecting or locally developing software. Such a local customized development would again be low cost, low risk and would improve efficiency in an important administrative function.

The above examples are identified as low cost and low risk from another viewpoint, apart from those explained. From an Enterprise Business Architecting viewpoint, such early interventions can be designed to interface with the Enterprise systems that follow – i.e. the medium to long term MIS solutions implementation – or can be discontinued. The benefits to the BOI that accrue during the time that they continue, i.e. the change towards an IT enabled business culture, creating e-readiness and training some selective segments of the organization – offsets the low costs and overheads involved – in case the modules are subsequently abandoned in favor of more advanced and comprehensive solutions. Conversely, the challenges and risks of changing around an organization largely driven typically by a government department's methods and culture, by introducing Enterprise-wide solutions are likely to be both high and unrealistic.

## 8.5 Medium to Long Term MIS Interventions

The attached diagram is a high level visualization of what would constitute the enterprise business architecture of the BOI's MIS. The diagram includes both, such modules which can be the subject of early initiatives and such other modules which would need to be considered as constituting the core business system modules and integrated systems of an ERP environment.

Broadly, under medium to long term MIS interventions, some of the main system modules, to cover the major areas of the BOI's core business, core business support, operations, HR, Accounting, & Compliance are depicted in the diagram, and would consist of:

- IRFM-Investor Registration & Facilitation Management Systems
- IDIMS-Investment Database & Information Management Systems
- FMIS-Financial Management Information System
- HRMIS-Human Resource Management Information Systems

- CRMS- Compliance & Reporting Management Systems
- OAMS-Operations and Administration Management Systems

## 9. FINANCING AND SELF SUSTAINING ASPECT OF BOARD OF INVESTMENT

The BOI is presently being financed by the Government of Pakistan but due to the overall financial constraints, it is facing difficulty in getting necessary funds to operate. With budget of PKR 189.3 Million (US\$ 1.95 Million) the BOI falls within the range considered effective. However, IPAs with resources from US\$2.0 million to US\$ 11 million achieve the best results in FDI attraction.

The annual FDI promotion budgets of some of the IPAs in 2004 were as under:

Country	US\$ Million
Singapore	45.0
Ireland	41.0
Costa Rica	11.0
Mauritius	03.1
Dominican Republic	08.8
Malaysia	15.0

*UN World Development 2005*

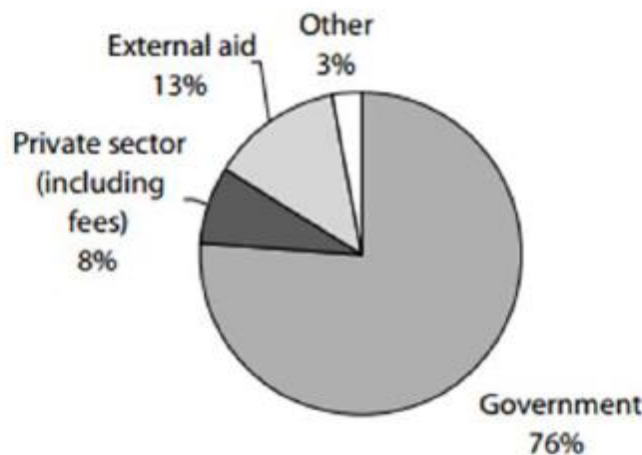
**Table 2: Annual FDI promotion budgets of some of the IPAs in 2004**

Considering the FDI needs in the overall political and operating conditions, the BOI will have to work very hard and accordingly will need more money to finance its activities, especially the image building of the country. Accordingly, in order to be effective and yield tangible results, its budget should correspond to the desired level of the activity.

In the Draft FDI Strategy for Pakistan 2012-16, the BOI mentioned various prepositions to become a self financing organization. Although, the BOI Board has approved the creation of the BOI Fund and authorized the BOI to levy services charges, sustainable funding is not yet there. However the creation of the BOI Fund as per Section 13 of BOI Ordinance, 2001 provides the BOI legal grounds to receive foreign assistance or loans with the permission of the federal government.

As per the World Bank Report titled "The effectiveness of Promotion Agencies at Attracting Foreign Direct Investment" dated 2004, for most IPAs, the bulk of financial commitment has to come from governments which account for more than 75% of total budget for all IPAs. Amongst developing countries, government contribution represents more than 80% of the IPA funding as evident from the following diagram.

### Sources of Funding, Percentage of Total IPA Budget



Source: FIAS Survey (2002).

**Figure 12: Sources of funding, percentage of total IPA budget**

The BOI has conceived the concept of Special Economic Zones (SEZ) as an effort to reduce the “cost of doing business in Pakistan” and as by-product a long term source to supplement its financing. Although, BOI is very hopeful regarding its Special Economic Zones initiative as a tangible source of financing, the financing/transaction structure of SEZ framework is yet to be calibrated. However, there are many windows in the SEZ Framework where BOI can charge fee on its various activities to generate income. In addition, since SEZ framework will be managed by BOI as prescribed in the SEZ Act 2012 and especially in the absence of SEZ Fund, the SEZ funding will arguably be routed through BOI Fund which naturally will implicate cross transactions.

The aid by international donors such as USAID, European Union, Asian Development Bank and World bank may bridge some objective on short/medium terms basis but not to be depended upon long terms basis. Accordingly, simultaneous to this avenue, the BOI may have to either develop its strong case with the Government of Pakistan for provision of fund for under Public Sector Development Projects (PSDP) for its operations. The BOI may get the support of a consortium of various donor/financing institutions to raise necessary funds with government support. It is needless to say that such a proposition can only be considered if the BOI get itself restructured and demonstrate professional approach of risk management and other benchmark credit worthiness parameters.

Another option could be explored is offering of dollar-denominated Diaspora bonds backed by government-guaranteed to overseas Pakistanis and other foreign nationals, particularly those living in the Middle East, Europe and the USA. Diaspora bonds already have success stories in India, Sri Lanka, Ethiopia and Israel where

governments have raised over \$35 billion dollars from their expats, often in times of liquidity crisis.

However, considering the uncertainty created by geo-political situation and upcoming elections, this is not the right time. This reality is confirmed from the fact that the international financial advisors (comprising of Citibank, JP Morgan, Credit Suisse and NMA Capital) of Oil and Gas Development Company, after having held road shows in Singapore, Hong Kong and London, have recommended Pakistan's economic managers to postpone the US\$500 million exchangeable bonds offer after the general elections in Pakistan and rebound of global markets which are not yet open for weak countries like Pakistan (Source: Business Recorder, 25 December 2012).

## 10. CONSOLIDATED RECOMMENDATIONS

After having analyzed each of the five areas of diagnostic study i.e. the BOI's Policy Framework, Legal & Regulatory Framework, Business Processes, Management & Organizational Structure, ICT & MIS Infrastructure, our experts provided 65 broad recommendations. Reviewed all together, these recommendations suggested a total restructuring of the BOI with actions outlined in the table below which also constitute as starting point for Phase II of the present Assignment.. At this point the timeframes are deliberately broad; more precise timelines will be determined while developing a detailed restructuring plan.

**Table 3: Policy Framework**

Sr.	Actions	Range*	Responsibility
1	The BOI should remain under the administrative control of BOI and the Chairman BOI should be made the Chairman of the Board of the BOI.	Medium	GoP
2	The new Secretary of BOI should be hired from private/public sector with strong business/investment background on market based salary.	Short	GoP
3	Constituted a Standing Inter-Ministerial Working Committee to deal with day to day investment related matters	Short	BOI
4	Based on the outcome of the recommended performance audit, the staff of other managerial positions, where required may be replaced with high calibre professionals.		
5	Up-gradation of role of commercial attaches for inward investment promotion	Short	BOI
6	Overlapping relationship of Trade & Investment promotion agencies	Medium	BOI
7	Reorganization of Board of the BOI	Short	BOI
8	Mechanism for coordination with provincial investment promotion agencies	Short	BOI
9	Establishment of directorate for coordination with private sector etc.	Short	BOI
10	Establishment of coordination framework with IPDF and PPIB	Short	BOI
11	Setting up of Task Force for Central Asia Trade and Investment	Short	BOI
12	Focus SMEs in its policy and operational framework	Medium	BOI
13	Suppliers/sub contractors' linkages & upgrading program	Medium	BOI

\*Short = capable of implementation within 3 months  
 Medium = capable of implementation within 6 month to one year  
 Long = capable of implementation beyond one year



**Table 4: Legal and Regulatory Framework**

Sr.	Actions	Range*	Responsibility
1	Drafting of Rules, Regulations and policies under BOI Ordinance, 2001	Medium	BOI
2	Devising an Internal strategy to achieve results expected under the BOI Ordinance, Investment Policy and FDI Strategy.	Short	BOI
3	Insertion of financing Mechanism in SEZ Act, 2012	Medium	BOI
4	Design of separate Department for SEZ Secretariat	Medium	BOI
5	Constitution of small size sub-committee of Board of BOI	Short	BOI
6	Strengthening of Legal Wing within the BOI	Short	BOI
7	Hiring experts/consultants to draft guidelines & policies for different tasks assigned under Investment Policy and FDI Strategy	Short	BOI
8	Review of existing Bilateral Investment Treaties BITs	Medium	BOI
9	Drafting of procedures & mechanism for commercial courts for FDI dispute resolutions/settlements	Medium	BOI

**Table 5: Business Processes**

Sr.	Actions	Range*	Responsibility
1	Development of detailed Operations Manual	Short	BOI
2	Create standardized profiles of sector – uniformity	Medium	BOI
3	Singular forum for conferences – no working in isolation	Short	BOI
4	Development of framework for coordination of the BOI with government authorities and ministries	Medium	BOI+ government
5	Investment Policy to be more practical and sector specific	Medium	BOI
6	Development of a transparent mechanism to invite businessmen on the BOI foreign events and mechanism to dissemination of information about their foreign trips	Short	BOI
7	BOI should publish a report on its activities, publish regular newsletter on investment generation and outcomes of promotional activities.	Short	BOI
8	Revision of promotional material	Medium	BOI

**Table 6: Management and Organizational Structure**

Sr.	Actions	Range*	Responsibility
1	Chairman BOI should focus on his delegated role of CEO and in this context, appraise him about his operational role	Short	BOI
2	Re-constitution of Board of BOI to include highly influential overseas Pakistani businessmen in addition to other recommendations made in Policy Review Chapter of this Report.	Short	GoP/BOI
3	Regularize board meeting on quarterly basis	Short	BOI
4	Develop annual corporate activity calendar & link board meeting minimum fixed agendas items accordingly	Short	BOI
5	Performance Audit of the BOI	Medium	BOI
6	The BOI should strictly comply with its stipulated mode of transacting official business.	Short	BOI
7	Establish proper HR Department	Short	BOI
8	Development of HR policies	Short	BOI/Govt.
9	Establishment of Projects Department	Short	BOI
10	Establishment of recommended additional/formal departments i.e. After Care, IT, Business Planning, Monitoring & Evaluation in addition to HR, Project	Short	BOI

	Development, Research, SEZ Secretariat and SEZ Authority for Islamabad		
11	Linking job descriptions with Business Plan (to start after completion to Business Plan)	Medium	BOI
12	Institutionalization of allocation of work on the basis of sectors than regions	Medium	BOI
13	Development of proper compensation mechanism to attract and retain quality professional staff	Short	BOI
14	Suitable buildings for BOI operations	Medium	BOI/Govt.
15	Office hardware (furniture, equipment etc)	Medium	BOI/Govt.
16	Revision of eligibility criteria of the position of Secretary and other managerial staff to eliminate condition of mandatory government service	Short	BOI
17	Institutionalization of internal communication protocols	Short	BOI
18	Right sizing of support staff (after allocation of work as per Business Plan)	Medium	BOI
19	Re-designing organization structure (after development of Business Plan)	Medium	BOI
20	Development of Performance Appraisal System in HR discipline based upon the allocation of work as per business plan and clearly identifying Key Performance Indicators.	Medium	BOI
21	Capacity and Performance Review of officials posted abroad.	Medium	BOI
22	Engagement a sector specialist of international standing to handle project feasibilities.	Small	BOI
23	Up-gradation, training, directing and equipping trade & investment staff in embassies.	Medium	BOI
24	Education of the BOI employees on their role & function	Short	BOI
25	Review of hiring process of specialists placed abroad to promote Pakistan	Short	BOI
26	Up-gradation, training and assignment of targets to Commercial Attaches	Short	BOI
27	Mechanism to pay existing de-motivated employees	Short	BOI
28	Development of a detailed business plan	Medium	BOI
29	Preparation of a revised investment policy of Pakistan	Medium	BOI
30	Preparation of a revised FDI strategy for Pakistan	Medium	BOI
31	Extraction of long term national agenda of Pakistan to serve as basis for investment policy & FDI strategy.	Medium	BOI

**Table 7: ICT and MIS Infrastructure**

Sr.	Actions	Range*	Responsibility
1	Defining the enterprise environment & requirements from IT prospective	Short	BOI
2	Redesigning the website and web portal	Short	BOI
3	Implementation of document scanning and work flow management system	Short	BOI
4	Implementation of Reception management system	Short	BOI
5	Documenting in detail the work methods	Short	BOI
6	Institutionalization of Investor Registration and Facilitation Management System	Medium	BOI
7	Development of Investment Database & Information Management System	Medium	BOI
8	Development and implementation of Financial Management Information System	Medium	BOI
9	Development and implementation of Human Resource	Medium	BOI

	Management Information System		
10	Development and implementation of Compliance & Reporting Management System	Medium	BOI
11	Development and implementation of Operations and Administration Management System	Medium	BOI
12	Development of a consolidated national platform for investment information	Medium	BOI
13	Establishment of investment related databank	Long	BOI
14	Put in place Investor Tracking System IT	Medium	BOI

For the sake of ease in reference, the detailed recommendations as summarized above and as also already provided in the respective chapters are given below:

### **10.1 Recommendations on Investment Policy Framework of Board of Investment**

1. The BOI should remain under the administrative control of Prime Minister Secretariat but the Chairman BOI hence should be made Chairman of the board of BOI.
2. The composition of the BOI Board may be changed to include only such private sector high net worth entrepreneurs particularly engaged in those productive entities which are considered target projects or involve modern technologies, in addition to the Presidents of the Chambers of Commerce and Industry of Foreign Direct Investment all the provincial metropolis, influential overseas Pakistani businessmen & academicians of international repute in the field of finance and economics.
3. From the public sector, Chairman, SECP and Governor State Bank of Pakistan should be included in the BOI Board besides a representative of Ministry of Commerce and Ministry of Foreign Affairs;
4. The new Secretary BOI should be hired from private/public sector having strong business/investment background with minimum of 15 years experience on market salary. Based on the outcome of the recommended performance audit, the staff of other managerial positions, where required, should be replaced with high caliber professionals.
5. The BOI should get constituted a Standing Inter-Ministerial Working Committee to deal with day to day investment related matters. This committee should be headed by the Chairman BOI and its members should be secretaries of related ministries and heads of utility organizations such as WAPDA and SNGPL etc.
6. The BOI should support/oversee Special Economic Zones Framework without indulging into its operational matters.
7. The role of Commercial Attaches in Consulates should be upgraded and they should be provided rigorous training and fully equipped to deal with the matters relating to inward investment promotion in Pakistan.
8. An elaborate Research and Policy Wing with qualified and capable research associates should be created in the BOI.
9. There should be close rather overlapping working relationship between the trade promotion framework and investment promotion framework to create a synergy in the larger national interest without compromising their respective rolls.
10. An institutional mechanism may be developed for coordination with the provincial governments for devising ways and means for according necessary clearances falling in their domain. This mechanism would be absolutely necessary for launching and successfully running of the Special Economic Zones (SEZs-The BOI to coordinate and pursue with the provincial governments;

11. The BOI has to create a Directorate General to establish on-going coordination and liaison with various Chambers of Commerce and Industry, Karachi Stock Exchange, Trade/Commercial/Economic counselors/representatives and Honorary Councils of the target countries; -The BOI to initiate action.
12. The BOI is not a corporate entity (and it would be in fitness of things that it remains a Government entity to work as an effective facilitator), therefore, it may not be given a fully autonomous status. For hiring of professionals and establishing of flagship SEZs, it can generate reasonable funds by innovatively preparing PCI and getting the schemes approved out of Development Funds. In the meanwhile some funding could be provided by the USAID.
13. It would be highly desirable, if the promotional/marketing material is thoroughly revised, in consultation with some newly appointed professional/Research Associates.
14. The BOI should focus on the Small and Medium Enterprises in its policies and operational frame work.
15. The BOI should establish institutional framework for coordination with the IPDF and PPIB for seeking approval of the government for provision of guarantees, insurances, performance bonds, and also to ascertain the mechanism and requirements for extending Multilateral Investment Guarantee Agency (MIGA) to the potential investors.
16. The BOI should initiate the process of developing a 'Disputes Resolution' mechanism/law that would provide the desired level of comfort to the international investors' community.
17. The BOI should set up the required Central Asia Trade and Investment Task Force in consultation and coordination with the Ministry of Commerce, Ministry of Communications (NHA), FBR and, also Ministries of Interior, Foreign Affairs, and States and Frontier Regions.
18. The BOI should initiate the process of gathering and analyzing data for 'Sectors through establishing Projects Identification and Development Department and start immediately preparing Pre-feasibility reports. Suitable assistance to do this should be considered by the appropriate agencies.
19. BOI should setup the SEZ Secretariat such as the development and setting up (Equipment & Furniture) of the third floor of BOI. Suitable assistance to do this should be considered by the appropriate agencies.

20. BOI should develop infrastructure of SEZ zones, once BOI has land allotted from Provincial Governments BOI should be made paperless and technologically at par with the international standards both with hardware and software assistance. Suitable assistance to do this should be considered by the appropriate agencies.
21. BOI should conduct research work and develop a portfolio of projects for local and foreign investments. Suitable assistance to do this should be considered by the appropriate agencies.

### ***Lessons for Policymakers***

*A practical implication is that poor countries or those with a relatively bad investment climate should focus on improving their investment climate rather than spending on promotion.*

*Extract from: The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment*

## **10.2 Recommendation on Legal and Regulatory Framework**

1. The following Rules, Regulations and Policies should be developed on urgent basis:
  - General Rules to implement the BOI Ordinance, 2001
  - BOI Employment Rules
  - The BOI Fund Rules (collection of fund and expenditure)
  - Rules of Procedure for meetings of members of BOI
  - Rules for establishment of sub-committees of BOI and their working
  - The BOI Rules for collection of fees and charges
  - Rules and Regulations to implement the functions assigned to BOI under SEZ Act, 2012
  - General Rules and all necessary Regulations under SEZ Act
  - Comprehensive Policy for Special Economic Zones
  - Devising internal strategy to implement the responsibilities assigned to BOI under the Ordinance, Investment Policy and FDI Strategy

- Clear Framework and Policy for carrying out the required functions under the Investment Policy and FDI Strategy and designating the officers who are responsible for such functions
  - Policy for coordination with other Government Department and protocols thereto
  - Policy for coordination and cooperation with provincial investment agencies
  - Detailed Policy for facilitating the investors after their decision to invest in Pakistan
  - Policy for monitoring the performance of the BOI (a separate policy is encouraged since this is vital to improve the performance of the BOI); and
  - Policy for periodic dialogue with potential investors.
2. Internal strategy should be developed to achieve the desired goals in addition to professionals, funds and monitoring & evaluation discipline.
  3. The fundamental flaw in the SEZ Act, 2012 that it does not provide for a fund for financing the required functions to be carried out by the BOI, should be addressed. To cure this deficiency, it is recommended either to increase the funding of the BOI for additional responsibilities of the BOI or a separate fund may be established through amendment in the SEZ Act.
  4. It is also recommended that as the BOI has been designated as Secretariat under the SEZ Act, the existing responsibilities of the BOI under the Ordinance should not be amalgamated with the responsibilities under the SEZ Act. To carry out the responsibilities under the SEZ Act, a new department should be established within BOI having requisite funding and employees.
  5. Due to the difficulty for arranging meetings of the Board of the BOI as mandated under law, the Board of the BOI needs to constitute small size sub-committee(s) as permitted under Section 22 of the Ordinance to carry out the functions assigned to the BOI. The said Section fully empowers the Board of BOI to establish sub-committees; therefore, there is no legal hindrance in the way of creation of sub-committees and delegating some functions of the BOI to them.
  6. The BOI needs to establish a legal wing inside the BOI comprising of experts (at last 3 to 5) in corporate and investment laws. The responsibilities of the said legal wing shall be to advise the BOI and investors on domestic as well as international legal issues.
  7. The BOI needs to hire professionals who can draft guidelines and policies for different tasks assigned under Investment Policy and FDI Strategy.

### **10.3 Recommendations on Business Processes**

1. Develop a Detailed Operations Manual to include process flows for each division along with:

- a. Roles, work and accountability
  - b. Internal service level agreements
  - c. External inter-ministerial provisions i.e. coordination, responsibility centers, turnaround time, deviation matrix and levels of authority
  - d. Private Sector Liaising Cell – to process work flow, responsibilities, local private sector coordination, investment related policy linkages and consolidation
  - e. Availability of business process repository online – to ensure transparency and accountability
  - f. Post Investment (After Care) Services with clearly defined service standards, responsibilities, follow up methods
2. Promotion:
- a. Establish separate research division i.e. maintenance of knowledge database and library, increase of automation and constant updates
  - b. Create standardized profile for sectors -uniformity
  - c. Review of hiring process of specialists placed abroad to promote Pakistan
  - d. Assign investment targets to the Commercial Attaches working under the mandate of the ministry of commerce and industry in commercial consulates of Pakistan working across the globe.
  - e. Creation of proper mechanism to pay de-motivated and existing employees before fresh hiring
  - f. Put in place Investor Tracking System to move towards paperless documentation
  - g. Update the BOI publication
  - h. Singular forum for conferences i.e. all party involvement (no working in isolation)
3. Network & Coordination:
- a. Create Private Sector Liaising Cell for interaction, queries, advice on prominent issues, and alignment of goals and re-appropriate personnel already existing in the BOI.
4. Policy advocacy:
- a. Improvement in coordination of the BOI with government authorities and ministries establishing investment enabling laws to facilitate investors
  - b. Policy to be more practical and sector specific
5. Facilitation:
- a. Reduce costs of doing business through creation of singular fee to increase transparency and removal of bureaucratic hurdles
  - b. Increase in post investment follow up services to generate fresh investment via existing investors (word of mouth)



## 10.4 Recommendations on Management and Organization Structure

1. The Board of Directors of the BOI should include highly influential overseas Pakistani businessmen in addition to the recommendations made in this context in the Policy Framework Chapter of this Report.
2. Chairman BOI who has already been authorized to act as Chief Executive Officer by the Board of BOI in its meeting of 18 May 2010 with the legal authority to administer, organize, manage and represent BOI should fully focus on his extended role. He should complete internal restructuring of BOI as soon as possible.
3. The eligibility criteria of the positions of Secretary, Executive Director Generals, Director Generals and directors should be revisited so that the professionals having minimum of 15 years international business/investment/development experience with proven successful track records may qualify for this post from private sector. As immediate step, the new Secretary of the BOI should be taken from private sector and s/he should be given market based salary. The new Secretary should be selected by the re-constituted Board of the BOI and his/her appointment should be made by the federal government. Moreover, based on the output of recommended performance audit, the other top managerial staff, where required, should also be taken from private sector.
4. The BOI should strictly comply with its stipulated mode of transacting official business. It should ensure proper internal workings, undertake due consultation (with ministries/government departments etc.) and prepare comprehensive summaries/project proposals (backed by financial/economic/competitive due diligence) prior to putting up, for consideration of Cabinet Committee on Investment (CCOI) with right pleading. Note that CCOI is fully mandated to approve investment proposals and even consider relaxation in policies and incentives as proposed by the BOI.
5. Considering all the 22 mandated functions and supporting framework in the light of targets, the emerging organizational structure of the BOI should accommodate the following additional departments:
  - a. Formal HR Department headed by a professional from private sector preferably services industry. This department should directly report to the Secretary.
  - b. The BOI should have a proper Projects Department with service lines of Research (economics, industry & target investors etc), Coordination (back office: public, private, foreign in value chain), Project Development (feasibility) and Consultancy Section.

- c. A full-fledged department titled "After Care" should be made part of the BOI for providing all time assistance/help to existing investors as generating business from existing client is always guaranteed and highly economical.
  - d. Formal IT Department should be established at Director level having two sections i.e. a) handling data centre, IT infrastructure and Networking etc and b) ) MIS, process implementations and DBAs.
  - e. A Proper Business Planning/Budgeting Department should be established to develop quantifiable targets and objectives on ongoing basis.
  - f. A formal Monitoring & Evaluation Cell (a customized function of internal audit) should be established and placed directly under the Secretary for measuring performances against the stipulated results/indicators in addition to ensuring objectivity of action plan/ongoing activities.
  - g. Two specialized departments with regards to SEZs need to be created i.e. a) SEZ Secretariat reporting directly to the Secretary and b) SEZ Authority for Capital Territory of Islamabad.
6. It is recommended that the annual organizational activity calendar of the BOI should be developed by specifically determining the minimum agendas of the quarterly meetings to focus on both internal and external investment aspects. There should be regular meetings of Board of BOI.
7. The BOI should get done a Performance Audit and in the meanwhile, maintenance of time sheets of each officer and staff be made mandatory.
8. The quantum of support staff needs to be right sized. With the induction of professional staff in the officer cadre and fusion of ITC technology, a lot of support staff will become idle.
9. The present organizational structure needs to be horizontally expanded to provide necessary enabling functions and services and reduce the layers within the structure.
10. The organizational structure is geographically bifurcated and its division on the basis of sector/industries as well as the type of investment needs to be evaluated.
11. The compensation structure of the BOI to be based on a benchmark formula pegged to performance and targets to bring out the best in people, rather than one yardstick approach for compensating employees across the board.

12. A detailed business plan of the BOI should be developed to scale the HR Department, set performance targets and underlying performance evaluation parameters/KPIs.
13. The Investment Policy of Pakistan should be revised by taking into account the comments made by experts in this Report as well as the outcome of the stakeholders' consultations as provided in the Chapter 11 of this Report. This would serve as guideline to prepare Business Plan of the BOI.
14. The FDI Strategy of Pakistan should be revised by taking into account the comments made by experts in this Report as well as the outcome of the stakeholders' consultations as provided in the Chapter 11 of this Report. This would serve as guideline to prepare Business Plan of the BOI.
15. Long-term National Agenda of Pakistan should be extracted in quantitative terms to facilitate in setting tangible investment targets by incorporating the same in Investment Policy and FDI Strategy of Pakistan and thereby further trickle down into the Business Plan of the BOI.

## **10.5 Recommendations on ICT and MIS Infrastructure**

### **1. Defining the Enterprise Environment & Requirements**

This involves defining the high level Enterprise Environment of the BOI, representing the broad areas of its business segments, the objectives and functions of each segment and the database and interactions between functions, processes and databases. It has business architecture rather than a technical architecture perspective and is suggested as the first step that the BOI needs to undertake towards selecting, procuring and implementing MIS modules and solutions. Most importantly, it enables a clear visualization for senior business management and leaders and helps in understanding why some areas do not need to wait on others to be clear, from an MIS implementation viewpoint. Further, how some priority areas can be taken up immediately, as early initiatives and quick successes towards automation.

### **2. Early Interventions & Quick Success Areas**

Concurrently with defining the enterprise environment, there will be immediate areas that can benefit from early interventions and constitute quick successes. Some of these are:

- a. Redesigning the Website and Web Portal and ensuring that Procedures and Processes are implemented for its content update and continuous enhancements, including adding to investor focused online forms, templates.

While outsourcing the redesign and development of the current website (or improving it if the current architecture enables its connectivity and integration with envisaged databases and back office applications, added security requires particular attention. Additional services such as Annex WVS automatically check web applications for SQL Injection, XSS & other web vulnerabilities. A service provider representing such services and locally present or preferably in the MENA Region – providing deployment and adoption of such services in medium and large enterprise environments – should be selected and the product/services procured.

- b. Implementing a document scanning and workflow management system in the Filing and Mail Management section, for improving the current documents and mail tracking capability.

Ideally, the BOI should be a paperless environment. However, this is an unrealistic objective in the immediate and short term, given current work culture which is mainly derived from governmental environment. A process re-engineering will have to be undertaken first, concurrently with or following any restructuring and reorganization, as envisaged.

However, a hybrid is a more realistic objective. It entails combining visibility of physical documents with a work flow based document scanning, bar code labeling and tracking system, employing indexing of documents resembling current filing/archiving methods.

Such a hybrid system, taking a phased approach towards a paperless environment (keeping within government's rules for audit visibility) can be sourced locally, at low cost and risk. To cite an example that is in the process of such a successful transition and implementation is the FATA Secretariat in Peshawar (presumably supported by USAID and World Bank) is one that can be visited and studied.

- c. Implementing a Reception management system, handling the BOI's employees attendance, current location and movements and providing coordination, reception and meetings planning of external visitors and investors.

A logical progression by an investor that starts externally (through the web portal or correspondence) is a physical visit and meetings at BOI. A reception and visitors management system, covering both pre-planned and walk in visitors is important for improving the image of the BOI. Currently, the drive in visitor encounters an empty and unattended reception desk inside the main BOI building. Visitors who park their vehicles across the road of the BOI building currently have to enter through a heavy steel door into a sparse reception room occupied by one or two disinterested ladies sitting at empty tales. Occasionally, after taking due measure of the appearance of the visitor, they would venture to ask what the purpose of the visit is and who is the person they wish to visit.

This overall aura does not make for projecting the image of an important institution with a vision to promote, encourage and facilitate investment!

A quantum and immediate improvement is suggested by introducing an on-line appointments system, combined with systems that additionally provide reception desk facilities, an RFID or bar-coded card based visiting system (differentiating between different categories of visitors) to give due protocol and visibility to foreign visitors and potential investors.

Such reception and visitor management systems are available off-the-shelf. A system that combines reception with security functions, integrates with on-line appointment systems, meetings planning and coordination, etc. can be procured and introduced at low cost of ownership and support overheads. There are several locally developed and integrated systems available. For example, systems implemented by the UN mission offices, World Bank, etc. which are both proven and have been through some stringent testing and selection procedures can be considered.

- d. Some other quick successes areas that can bring about operational efficiency involve studying in detail the work methods and organization done at a “desk level through individual and section level initiatives. The visas application and follow up system, organized by the personal interest and initiative of an individual of the section is an example. The Excel spreadsheet used by the section is a starting point for documenting a requirements specification and selecting or locally developing software. Such a local customized development would again be low cost, low risk and would improve efficiency in an important administrative function.

The above examples are identified as low cost and low risk from another viewpoint, apart from those explained. From an Enterprise Business Architecting viewpoint, such early interventions can be designed to interface with the Enterprise systems that follow – i.e. the medium to long term MIS solutions implementation – or can be discontinued. The benefits to the BOI that accrue during the time that they continue, i.e. the change towards an IT enabled business culture, creating e-readiness and training some selective segments of the organization – offsets the low costs and overheads involved – in case the modules are subsequently abandoned in favor of more advanced and comprehensive solutions. Conversely, the challenges and risks of changing around an organization largely driven typically by a government department's methods and culture, by introducing Enterprise-wide solutions are likely to be both high and unrealistic.

3. **Broadly, under medium to long term MIS interventions, some of the main system modules, to cover the major areas of the BOI's core business, core business support, operations, HR, Accounting, & Compliance are depicted in the diagram, and would consist of:**

- a. IRFM- Investor Registration & Facilitation Management Systems.
- b. IDIMS- Investment Database & Information Management Systems.
- c. FMIS- Financial Management Information System.
- d. HRMIS-Human Resource Management Information Systems
- e. CRMS- Compliance & Reporting Management Systems
- f. OAMS-Operations and Administration Management Systems

## **11. ANALYSIS OF EXISTING STATE OF BOARD OF INVESTMENT'S BENEFICIARIES/OUTCOME OF STAKEHOLDERS' CONSULTATION**

In the context of FDI Investment Policy and FDI Strategy, we undertook a round of discussion with various stakeholders as listed below (In addition to the Chairman, Secretary and Management of the BOI) with primary objective to discuss with them the two key questions firstly "What should BOI be doing to best represent its objectives and goals?" and secondly, "How do you feel that the BOI would be able to best achieve this?".

- i. Pakistan Federation of Chamber of Commerce & Industry
- ii. Karachi Chamber of Commerce & Industry
- iii. Lahore Chamber of Commerce & Industry
- iv. Islamabad Chamber of Commerce & Industry
- v. Rawalpindi Chamber of Commerce & Industry
- vi. International Overseas Chamber of Commerce & Industry
- vii. Khyber Pakhtunkhawa/Sarhad Chamber of Commerce & Industry
- viii. FATA Chamber of Commerce & Industry
- ix. All Pakistan Textile Mills Association
- x. Ministry of Commerce
- xi. Ministry of Industries
- xii. Planning Commission of Pakistan
- xiii. Pak Gulf Construction Private Limited
- xiv. Ex-Chairman BOI & FBR Mr. Yusuf Abdullah
- xv. Ex-Secretary BOI Mr. Masud Daher
- xvi. Chairman Board of Investment
- xvii. Secretary & Director Generals of Board of Investment

Their comments are as under:

- Mostly people in the private sector are not aware of the national Investment Policy or FDI strategy document.

- The targets set in Investment Policy do not appear to be realistic.
- Policy framework of the BOI should account for the trade agreements implications e.g. Afghan Trade.
- Tax is the major problem and it should be liberalized to reduce the cost of doing business.
- Policy framework should give due consideration to SMEs in less developed provinces to attract investment.
- There is very little interaction between the regional offices of the BOI with local chambers. Chambers however appear keen to work with the BOI.
- The investment climate in terms of law & order, good governance and vitality in judicial system are must to attract investment.
- Investment policies must subsidize businessmen to bring investment rather than government officials on government stipend.
- The BOI should give direction and training to trade & investment staff in embassies as they are not aware of means used to exploit investment opportunities.
- The role of provincial BOI should be increased.
- There should be one consolidated national platform for investment information in order to be authentic and updated in order to be result oriented.
- The BOI should connect the potential foreign investors with local investors.
- The BOI should open and cover communication gaps and also develop information on local investors for foreign counterparts.
- There should be a transparent mechanism to invite businessmen on the BOI foreign events nominated by the Chambers. Moreover, the BOI should disseminate information about their foreign trips in order to inform the business community about opportunities that are available across the globe.
- The BOI should have a good informative and attractive website.
- The government should unify on policy formulation in order to achieve results.
- Investment attraction tools currently being used by the BOI are problematic. Tariffs are increasingly being used as a tool of investment attraction whereas the appropriate tools should include services or the country's existing economy etc.

- There is need to drastically improve the capacity at the BOI to analyze a problem and solve it.
- Local investors are being discriminated and nothing is being done for them by the BOI. No attention has been paid to domestic commerce and there seems to be a virtual disconnection between investment and trade.
- The capacity of the people creating the BITs without consideration of having to implement them needs to be assessed.
- If outward investment' costs is greater than the benefits, then the BOI must reconsider how this needs to be done.
- There is a need to review existing BITs as they are not beneficial.
- The BOI does not know the cost of its policy on economic growth of the country and there is no awareness in the BOI on the cost of economic governance.
- The BOI should be with the Ministry of Commerce.
- The emerging challenge of BOI is the royal treatment larger companies get as opposed to small and medium sized investors although they are painstaking and could lead to a better economy.
- There is lack of commercial courts for FDI dispute resolutions/settlements.
- The BOI has failed to leverage foreign investment in Pakistan, as even the investors who bring in investment exit the Pakistani market after some time.
- BOI must work towards acting as a Board of Investment for the entire Pakistan, not just foreign investors. BOI should look at Pakistan first and focus on outward investment as well as inward, because if Pakistanis do not invest money here, why would anyone invest here.
- SEZ project should consider Pakistan's surroundings and should be targeting the Pakistani market as well. This can be done by being located close to the Chinese and Indians, in order to be also function as an export oriented market.
- Currently all the officials posted abroad are not selected on merit. These need to be technical people who can look after the trade and investment such as the foreign minister to Japan who is incredibly proactive.
- USAID focusing on a public-to-public disbursement of money and that it currently did not interact with the public. This perception should be conveyed to the USAID that common people believe that no donor money is actually seen affecting their daily lives.



- The BOI is striving to attain US\$ 2 billion of investment in year 2012. However, the current public subsidy is US\$ 5 billion.
- BOI should also match make JVs but this should be categorized under a separate head in the BOI and that locals and foreigners in this category should be split.
- There needs to be some focus on technology transfer or recommendations were made on taking on value added services where as opposed to raw projects, it'll be easier for the BOI to attract interested investors.
- The BOI should conduct its research based on splitting each region into its strengths and weaknesses to give it a better idea of FDI coming in to a specific sector and to then appropriately make matches with investors
- There is a need for isolating the BOI from any political interference. It should be headed by non-political individuals and professional staff with relevant educational background and past experience be selected purely on merit with clear performance targets to be achieved; The people on the Board should not be placed on personal liking basis rather on the basis of their performance in their own fields, e.g., trade, production, academic excellence etc.;
- The BOI should focus on knowledge based advocacy to assist the relevant policy making and regulatory entities to formulate investor friendly policies and a competitive investment climate in Pakistan;
- Trade and investment conferences are being held without the inclusion of the BOI by TDAP. There is a need for better liaising with other governmental bodies and chambers in a manner where all bodies participate and this can only be done through the creation of a single Investment cum trade promotion conferences. All the events organized by the BOI must have adequate representations from FPCCI and OICCI.
- The representation on the Board must be from the trade bodies, long standing business institutions and high net worth business leaders. It was revealed that Board of the BOI has not met in a long time. What is the point of such a board existing if matters aren't discussed in a few years?
- The private sector strongly feels that currently there is no personal or institutional interaction of the BOI with the private sector. The senior management needs to be sensitized with the importance of ongoing dialogue with the domestic private sector.
- Since the BOI currently has no internal knowledge database nor does it assess the viability or feasibility of a project, when an interested investor poses them with a technical or specific question, the BOI contacts the local client or consultant directly to attain further clarifications or information for the investor. The officers in the BOI

are not capable of analyzing the correctness of a feasibility report nor are they qualified to create such reports themselves.

- Though the policies framed by the government Pakistan are very good, there is no proper and credible implementation mechanism particularly by the BOI;
- The BOI does not publish proper reports on its activities. The BOI should publish regular newsletter on investment generation and outcomes of promotional activities in the form of success stories which should be sent to all the trade bodies;
- There are too many hurdles for the investors currently and there are 17 procedures for FDI set up in Pakistan; the BOI should remove as many hurdles as possible from the investment policy. Serve as the intermediary between the government and the foreign investor as the main source of feedback to government policymakers on the concerns of foreign investors and cumbersome and redundant business requirements.
- The BOI should aim to become a one-stop shop, delivering substantial savings for users by providing seamless, integrated and easily accessible points of contact;
- There is a lack of education in International Marketing in Pakistan- we need specialists and academia involved in the actual policy making of the country, create think tanks to discuss initiatives, issues, policy, conflict disputes etc.
- There is no mechanism for post investment services. Once the country starts to attract the interest of investors, it should continue to provide post-investment decision services as to facilitate ongoing operations and satisfaction of existing investors. "Word of mouth from existing customers is incredibly crucial".
- The BOI should institutionalize corruption in 1 window: In order to overcome undue hurdles investors' payout several corrupt agents at different levels of the investment set up process. Private sector was of the view that by institutionalizing corruption under one window will confirm the cost, period involved and hassle of dealing with multiple agencies. Corruption should be made ordinal cost of business payable at one point and everybody will be willing to pay it upfront to get the entire set up procedure streamlined.
- Addressing hurdles like security, proper infra structure, services and more importantly water, power and gas is pre-requisite without whom industrial sector cannot survive. Three issues that must look at, are as under:
  - i. Promotion of privatization and ways in which this sector can be improved in a better way.
  - ii. Large industrial sector are the areas where foreign investment was being more injected and the concentration of BOI's policies in supporting them and as a consequence to that, small and medium enterprises (SMEs) were being ignored. The BOI as a policy must separate and segregate dimensions of participation or

area investment into two segments that are one for large scale industry and one for SME sector.

- iii. Policy perspective of the BOI which must be clearly directed in order to attract the investment from the diasporas as at the moment it had a broad based policy and such a policy usually ends up for inward investment being sort out by foreign investors.
- One sector where there is no policy perspective is about the Pakistanis who have started residing abroad are identified as the largest prompters of investment into the country with greater prospective and their contribution at the moment is through foreign remittance and where inward investment by the BOI is not being targeted at all
  - Another area which should be focused is the external image building prospect that is one of the greatest blocks to hurdle the inward flow of investment in Pakistan. Many other countries have started using their investment promotion agencies through which coordination effort is being made towards image building in the outer country where as in our country this is a droll which has been left primarily to be handled by foreign missions and there is no major agency in Pakistan which is co-coordinating the effort of image building. So this role should be taken up by the BOI.
  - Embassies abroad have foreign councilors, which under the control of ministry of commerce and under functional control of ministry of foreign affairs, are promoting trade or foreign relations but there is no attention being paid to foreign investment by them because there is no forum through which these commercial councilors are being directly attached. They should be properly addressed by the related ministries with a well directed mandate in order to promote investment.
  - BOI must have a very clear direction on how the coordination between the offices should work and effort needs to be made in the development of industrial status.
  - Export Processing Zone has been set up in Pakistan held to be successful economic zone and they are looking forward at the possibility of setting up an EPZA at Lahore. The rules and regulations being made should also include in them the prospect and possibility that the extensions of successful zones being carved out in up north should also be facilitated.
  - Other area was the investment facilitation by the Government in terms of sovereign guarantees. Punjab is not given its due share which is government supportive for the investment being made in this perspective. Most sovereign guarantees being facilitated by investment in other parts of the country as compared to Punjab therefore they needed to bring about a rationalization into this.
  - The BOI should create opportunities for business for the businessmen of Khyber Pakhtunkwa in the areas of hydropower, mineral, furniture and marble sectors.

- In order to promote the economy of FATA region, taxes should be removed on the products manufactured and sold by FATA region in and outside FATA and markup free loans should be provided to those businessmen whose industries have been destroyed in the areas where (military) operations are going on. Moreover, Compensation should be provided in FATA region due to loss of industry.
- In few areas of FATA there is no access of electricity and gas.
- FATA Chamber explained that KPK is the gateway to Central Asia too and opportunities of doing business should be searched there too.
- Government should focus on long term policies rather than short term as frequent change in policies and imposition of taxes and changes in tax rates effect the investor interest and they feel reluctant in investment in such areas.
- Legal protection in such areas should also be provided to investors.
- FATA Chamber should have its representation on the BOI Board and the BOI should attend all investment related meeting in FATA.
- Forums should be created at national and international levels so that FATA businessmen can advertise their products.
- The present structure of BOI is outdated, and BOI must be structured on modern lines.
- Feasibility reports should be prepared for different industrials sectors by BOI
- Complex procedures for investment in Pakistan should be eliminated.
- There should be proper representation of elected representatives of various chambers of Pakistan, accountable to their respective chambers
- The selection criteria of delegation of foreign visits/ exhibitions/ seminars should be made public and adhered to in its true spirit.
- The compensation of officials of BOI should be linked with their performance
- BOI should develop a book/ CD incorporating the comments of existing foreign investors operating in Pakistan as their words will be more relied upon and endorsed by international business community
- The BOI officials should share a report of investment conference with all the chambers

- Proper representation of chambers in delegations BOI participates in the domestic and foreign investment related events should be ensured.
- BOI should give directions in training to trade & investment staff in embassies
- BOI should be able to influence ministries / departments to get its commitments honored
- Strategic planning must be done by BOI
- BOI should engage a sector specialist of international standing to handle project feasibilities
- Pakistani business school should produce professionals of international caliber specially marketing of Pakistan and opportunities attached to it in the international arena
- BOI should be made aware of cost of economic governance
- Policies should be developed to produce skillful and educated youth
- There are many investing opportunities available but only proper market research is required
- A smooth interaction of planning commission and BOI will help in the development of investment projects for marketing to domestic and international investors
- Planning commission suggested providing various special privileges to domestic and international investors including citizenship of Pakistan on certain level of foreign investment
- A need for tri-party Private Public partnerships in financially feasible projects
- There should be strong accountability of the government officials
- BOI should ask state bank of Pakistan to revisit the policy framework with regards to fund currency accounts for investment promotion point of view
- BOI should focus on the basic things and improve its products then focusing on marketing of non marketable projects
- Being under the administrative control of PM, BOI should pressurize government to resolve its bottlenecks in larger national interests

- In order to attract both the local and foreign investment, there needs to be a good incentive package system
- BOI needs to focus on its HR development

## 12. RECOMMENDATIONS FOR PLACEMENT OF PERSONNEL

The present assignment is divided into two parts. The scope of Phase-I is to undertake a diagnostic review including recommendations of short term personnel for Phase II and in phase II, these short terms personnel will develop a detailed Restructuring Plan of BOI. However, on the request of BOI at the Presentation made to Client on 11 January 2014 on the finding & recommendations of this Report, the Client has in principal approved the enhancement of the scope of work of Phase II to encompass simultaneous start of implementation of the findings of the Phase I.

Please note that under original scope of work of Phase II, the short term personnel under discussion were only supposed to review the BOI's existing strategic business plan/strategy, arrange wide-based stakeholder consultation on the proposed strategy and, in light of consultations and an acceptable strategy document, analyze the BOI's structure and institutional capacities and propose a detailed plan to restructure BOI to enhance its capabilities and streamline business processes inducing systems development that will include all existing financial and operational systems. Whereas in the extended scope of work, in addition to original scope, these short term personnel will also supervise the implementation of recommendations under this diagnostic study. Please note that all the procurements shall be done through the Client. Moreover, during this phase, Grant Thornton shall also be organizing and moderating meetings with stakeholders and deliver periodic presentations to BOI, the Project and USAID Economic Growth Office representatives whenever requested.

Keeping in view the sensitive nature of the assignment of national interest having long term implications on the economy of Pakistan, the report proposes following personnel for placement in at BOI to improve its current working capacity and further carry out the reform process indentified through the analysis of this report.

1. Project Director/Team Leader
2. Institutional Development Specialist
3. Public Sector Investment Policy Specialist
4. Legal and Regulatory Framework Specialist
5. Human Resources Specialist
6. Information Technology and MIS Specialist
7. Advocacy and Public Awareness Specialist

## 13. WAY FORWARD

The Phase I of the current assignment i.e. Diagnostic Study is complete and a presentation on the findings & recommendations provided in this Report has also been made to the Client on 11 January 2013. The comments communicated by the Client on the draft Report as well as made in the above referred Presentation have also been incorporated in this Report. This now leads to start of Phase II of the Assignment i.e. development of detailed Restructuring Plan based on the finding and recommendations of the Phase – I.

The BOI however desires that the scope of Phase II should be extended to simultaneously commence the implementation of immediate recommendations made in this Report to quickly turnaround the BOI. The request of the BOI has in principal been agreed by the Client in the presentation meeting of 11 January 2013.

Keeping in view the above aspects, the way forward will be as under:

1. The Client to formally approve this Report titled “Analysis of the Existing State of Pakistan’s Board of Investment” dated January 2013.
2. The Client to issue revised scope of work encompassing simultaneous implementation of the recommendations of the Phase I in the shape of Task Order II.
3. The estimated timeframe for execution of Phase-II (with extended scope) is six to eight months.
4. The rough estimates of financial implications of the Phase II encompassing extended scope of work are as under:

Sr.	Description	Amount PKR
a.	Professional fee of Grant Thornton as per agreed rates (inclusive of its overheads)	42,000,000
b.	External Consultant’s fee	42,000,000
c.	Infrastructure/capital expenditures	98,000,000
	Total	182,000,000

5. All the procurements of external consultants and capital expenditures shall be executed through the Client/USAID and Grant Thornton shall supervise the procurement process.
6. To supervise the implementation phase, especially procurements, Grant Thornton recommends the constitution of a ‘Steering Committee on BOI’ comprising of three

Board Members of the BOI including its Chairman, two members from the Client and two members from Grant Thornton.

7. The proposed implementation Plan shall be developed by the professionals of Grant Thornton and be approved the above mentioned Steering Committee.

## 14. ANNEXES

### 14.1 Annex 1- Similar Investment Promotion Agencies in the Region

During the course of this assignment, we undertook a surface review of the some of IPAs in the region which share a similar history as that of Pakistan, but have either overcame deficiencies, or are in the process of recovery and act as Pakistan's major competitors in terms of investment alternatives i.e. Turkey, Malaysia, South Korea and Bangladesh. The following is the comparative summary of the peer group:

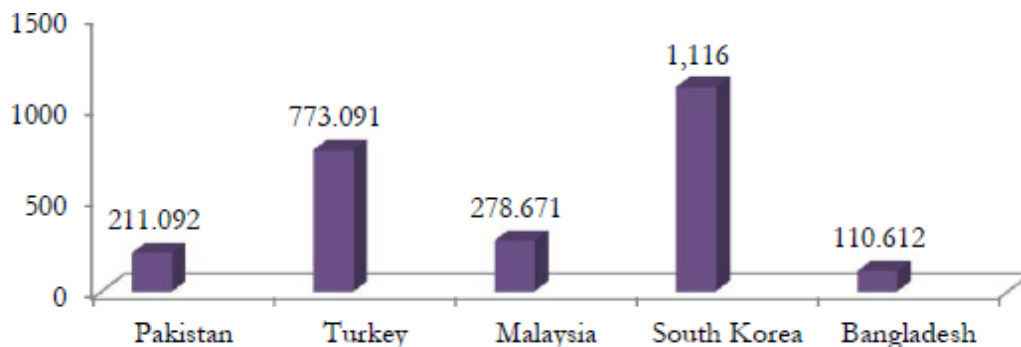
**Table 8: Comparative Summary of Pakistan's peer group**

Functions carried out to attract investors	Pakistan BOI	Peer group			
		Malaysia	South Korea	Banglades h	Turkey
<b>ASSISTANCE TO INVETORS</b>					
Offer market/ country information & analysis/conselling services to investors	✓		✓	✓	✓
Investor welcome service (faster immigration).				✓	
Assist investors to identify emerging investment opportunities	✓		✓		
Site selection/ Assistance in obtaining industrial plots.				✓	✓
Finding companies for potential partnerships and joint ventures			✓		✓
Registration/ approval of foreign, joint-venture and local project.				✓	
Advise investors on government policies and procedures.		✓			
Facilitating utility connections (electricity, gas, water & sewerage, telecom)				✓	
Approving remittance of royalty, technical know-how and technical assistance fees; Approving foreign loan suppliers' credit				✓	
Facilitating import of capital machinery & raw materials; Assistance with import clearance and warehousing licenses				✓	
Negotiations with relevant government institutions; Registration/ approval at branch offices; co-ordination among institutions engaged in or connected with industrial development	✓	✓	✓		✓
Facilitating legal procedures and applications such as establishing business operations, incentive applications, licenses and work permits; handling civil affairs in areas of accounting, visa, tariff, and tax		✓	✓	✓	✓
Resolve difficulties experienced by investors in the course of doing business			✓		
Assist companies in the implementation and operation of their	✓	✓			
<b>ASSISTANCE TO GOVERNMENT/COUNTRY</b>					
Undertake planning for industrial development		✓			
Advocating policy suggestions and strategies on industrial promotion and development to Government	✓	✓		✓	
Assisting the government in framing new policies for private	✓			✓	
Assisting the relevant national taskforce on investment climate				✓	



### GDP comparison of PEER Group – 2012 (all values in billions of USD)

After a bird eye view of the Peer Group comprising of Bangladesh, South Korea, Malaysia and Turkey, given below is a comparison of their respective GDPs to facilitate the review of their respective investment promotion agency:



**Figure 13: GDP comparison of PEER Group – 2012 (all values in billions of USD)**

The detail of each competing country's IPA with its; political situation, services offered, competitive edge and population are discussed in the following section.

#### 14.1.1 Bangladesh

##### i) Establishment Board of Investment of Bangladesh

Established under Investment Board Act 1989, the Board of Investment (BOI) is the principal private investment promotion and facilitation agency of Bangladesh. The act mandated BOI for providing diversified promotional and facilitating services with a view to accelerating industrial development of the country. Its primary functions include investment promotion, investment facilitation and policy advocacy.

##### ii) Services offered Board of Investment, Bangladesh

BOI Bangladesh offers HELP right from welcome services to investors, work permits, pre-investment counseling to registration/approval of branch, liaison and representative offices, as well as for foreign, joint venture and local projects. It also helps in registration with the Factories Act, facilitating utility connections (electricity, gas, water & sewerage, telecom etc.), assistance in obtaining industrial plots, approving remittance of royalty, technical know-how and technical assistance fees, facilitating import of capital machinery & raw materials & approving foreign loan suppliers' credit, PAYE scheme etc. Among facilitation services, Help will be provided with information tailor made to investor's business area, advice about the best place to locate the business, Introduction to the most relevant organizations, government agencies and BEPZA, the agency responsible for the export processing zones (EPZ). Help in registering

investment intentions with the BOI to enable eligibility of the incentives that are available. After starting commercial operations BOI follows up with investors needs subsequently.

The BOI Bangladesh aims to establish and maintain a central data bank on all foreign companies (commercial & industrial) operating in the private sector in Bangladesh and all expatriates permitted to work in Bangladesh by the Board of Investment. The inter Ministerial Committee will review and analyze the information kept in the Data Bank from time to time and the data bank will be linked with other relevant agencies of the government. Information of the data bank may be disseminated to the government intelligence/security agencies in the interest of national/state security.

### **iii) Political condition & competitive edge of Bangladesh**

Military dictatorships and extra-constitutional administrative measures have strained political stability in Bangladesh. The state of emergency declared in 2007 delayed elections by two years in order to launch a major crackdown operation against corruption. But once the bureaucratic martial law was lifted, the people of Bangladesh voted once again for the same political parties. To strengthen the internal democratic process, Bangladesh has taken drastic steps including the trials of ex-army officers who were responsible for the assassination of Sheikh Mujib ur Rehman.

Bangladesh offers a well-educated, highly adaptive and industry oriented workforce with the lowest wages and salaries in the region. 57.3% of the population is under 25, providing a youthful group for recruitment. The country has consistently developed a skilled workforce catering to investors needs. English is widely spoken, making communication easy. With this very high population and reasonable education levels, there is not a dearth of labor especially unskilled and semi-skilled labor.

Energy prices in Bangladesh are the most competitive in the region. Transportation on green compressed natural gas is less than 20% of the diesel price. However in terms of infrastructure there is a lack of development in Bangladesh which is a weak link in terms of investment promotion and attracting FDI.

### **iv) Population of Bangladesh**

Bangladesh has proved to be an attractive investment location with its 146.6 million population size and consistent economic growth leading to strong and growing domestic demand

### **14.1.2 Korea**

#### **i) Establishment of Invest KOREA (IK)**

Invest KOREA (IK), Korea's national investment promotion agency, was established within the Korea Trade-Investment Promotion Agency (KOTRA) with the sole purpose of supporting the entry and successful establishment of foreign businesses into Korea. Established in 1998 as the Korea Investment Service Centre (KISC), was transformed into Invest KOREA after the government finalized a comprehensive plan to attract foreign investment with the twin aims of increasing foreign investment and reforming the overall FDI support system.

#### **ii) Services offered by Invest KOREA (IK)**

Invest KOREA provides support at each stage of the investment process, from international promotion of Korea's image and identification of target companies to delivery of customized assistance ranging from research and planning to implementation. The agency also provides substantive feedback from investors to policymakers in order to constantly improve the investment environment. The range of one stop shop services offered by Invest KOREA has been significantly enhanced following the opening of the Investor Consulting Centre (ICC) within Invest Korea Plaza. The centre provides information and assistance on a variety of matters relating to foreign investment and daily living in Korea, from selecting plant sites and forging alliances with Korean partners, to education and accommodation.

Additional business-related assistance is provided by officials seconded from the Ministry of Justice, the National Tax Service, the Korea Customs Office, and the courts of law, all of whom offer a broad range of administrative support and respond to complaints made by foreign investors. All services provided by the ISC are available in English, Japanese and Chinese. Aftercare services are also provided and include Investment Ombudsman, Investment Aftercare Team and research & Counseling etc.

#### **iii) Political condition & competitive edge of Korea**

The citizens of South Korea enjoy high levels of social rights and political freedom, which is in stark contrast with its neighbor of the North. South Korea has enjoyed fairly stable economic growth since the time of military rule up till 1987, and has also achieved stable democratically elected governments since then.

Korea's illiteracy rate was 1.7% as of 2008. Every year, approximately 470,000 college graduates join the workforce. In the spring of 2012, Korea's college entrance rate was 72.5%, the highest in the OECD. The country's college graduation rate in the 25-34 age groups is 63%. Such a strong passion for education in a stable educational system explains Korea's continuous supply of high-quality human resources, which in turn enhances the competitiveness of companies and help them constantly innovate. Moreover, the average annual working hours as of 2010 were 2,193, the highest among

OECD countries. The labor productivity improvement rate as of 2010 was 6.4%, the highest in the OECD.

Korean cities feature well-developed, cheap and convenient mass transportation. Subways are available in many metropolitan cities and buses run to almost all corners of Korea. The Incheon International Airport has been ranked the best airport in the world for seven consecutive years.

Its fast and meticulous cargo-handling system and simplified customs clearance process help make it the best airport in the world. Moreover, port of Bussan, the largest in Korea, lies on a major global shipping route linking Korea to North America, Asia, the Middle East, Europe and Latin America. Korea's electricity supply is well known for being highly affordable and stable, so is the supply of industrial water and potable water.

#### **iv) Population of Korea**

The population has very strong purchasing power. In fact, the high-end Korean market is recognized as the global trend-setter. Its response to new products affects many companies' marketing strategies for not only China, Japan and ASEAN member nations, but also for Europe and other parts of the world.

### **14.1.3 Malaysia**

#### **i) Establishment of Malaysian Investment Development Authority (MIDA)**

The Malaysian Investment Development Authority (MIDA) is the government's principal agency for the promotion of the manufacturing and services sectors in Malaysia. Incorporated as a statutory body under the Malaysian Industrial Development Authority (MIDA) Act, the establishment of MIDA in 1967 was hailed by the World Bank as "the necessary impetus for purposeful, positive and coordinated promotional action" for Malaysia's industrial development. Today, MIDA's is Malaysia's cutting-edge, dynamic and pioneering force in opening pathways to new frontiers around the globe.

#### **ii) Services offered by Investment Development Authority (MIDA)**

MIDA assists companies which intend to invest in the manufacturing and services sectors and facilitates the implementation of their projects. The wide range of services provided by MIDA includes providing information on the opportunities for investments, as well as facilitating companies looking for joint venture partners. To further enhance MIDA's role in assisting investors, senior representatives from key government agencies are stationed at MIDA's headquarters in Kuala Lumpur to advise investors on government policies and procedures. These representatives include officials from the Department of Labor, Immigration Department, Royal Malaysian Customs, Department of Environment, Tenaga Nasional Berhad and Telekom Malaysia Berhad.

Among the functions of MIDA, they are to promote foreign and local investments in the manufacturing and services sectors. MIDA also undertakes planning for industrial development in Malaysia. They also recommend policies and strategies on industrial promotion and development to the Minister of International Trade and Industry.

### **iii) Political condition & competitive edge of Malaysia**

Malaysia has a very stable political environment with very low reported corruption levels. A multi-party system exists in Malaysia; however, the National Front coalition party has been in rule since 1973. This has led to increasing investor confidence without the threat of political upheavals disrupting the investing environment.

Malaysia places a high priority on education, skills development, training and retraining. Most workers in Malaysia have at least 11 years of education. Also, since the launch of the Human Resource Development Fund in 1993, there has been a focus on training and retraining of the workforce which has contributed to the vast economic improvements in Malaysia. There is a talented, young, educated and productive workforce.

Over the years Malaysia has developed a vast infrastructure network that has been conducive for attracting FDI in Malaysia, and has reportedly been among the most attractive factors for investment promotion. These include a network of well-maintained highways and railways, well-equipped seaports and airports, high quality telecommunications network and services, fully developed industrial parks, including free industrial zones, technology parks and Multimedia Super Corridor (MSC) and Advanced MSC Malaysia Cyber-cities and Cyber-centers.

### **iv) Population of Malaysia**

With a population of just over 26 million, Malaysia's domestic market is relatively small compared to many of its ASEAN neighbors. As such potential large-scale investors are not attracted by creating manufacturing zones for the local consumption, but instead for export purposes. With so many other factors promoting FDI, this has a nearly negligible negative effect on Investment Promotion.

#### **14.1.4 Turkey**

##### **i) Establishment of Investment Support and Promotion Agency (ISPAT), Turkey**

Investment Support and Promotion Agency (ISPAT) is the national investment promotion Agency of working under the Turkish Prime Minister. It provides Investment facilitation and coordination with relevant governmental institutions, site selection and matchmaking potential partners etc. It also helps in establishing business operations, Incentive applications, getting licenses & work/residence permits etc and assists in Assessing conditions for investments, and finding companies for potential partnerships and joint ventures

##### **ii) Services offered by Investment Support and Promotion Agency (ISPAT)**

ISPAT provides market information and analyses to all potential investors on their website and upon contact with them. Comprehensive sector reports and industry overviews are also produced. ISPAT negotiates with all Government organizations regarding issues that potential investors may face in the future. Other long-term goals include Improvement of the Investment Environment in line with International Standards, Improving the Perception of International Investments in Public Opinion and Ensuring Public Support, Supporting Turkey's EU- Harmonization Process, Contributing to "Development Index" with Social Responsibility Projects (Sustainability) & Strategic Contribution to Sustainable and Value Added Growth.

##### **iii) Political condition & competitive edge Investment Support and Promotion Agency (ISPAT)**

Turkey has had a fair share of political instability, where four Governments have been toppled since 1960 by the Military. The current Government also faces resistance from secularists in favor of separation of religion and state. However, the instabilities have not led to a lack of investments and FDI in Turkey, as the investor friendly atmosphere and the respective Trade Zones are not interfered with.

There are over 26 million young, well-educated and motivated professionals in Turkey. The labor productivity has been increasing with higher education levels and a skilled work force. Turkey boasts the longest working hours, and the lowest sick day leaves per employee in Europe with 52.9 hours worked per week and annual average of 4.6 sick days per employee.

Turkey has a new and highly developed technological infrastructure in transportation, telecommunications and energy, with well - developed and low-cost sea transport facilities. Railway transport systems exist linked to Central and Eastern Europe, and there is a well established transportation routes and direct delivery mechanism to most of the EU countries. There is an easy access to 1.5 billion customers in Europe, Eurasia, the Middle East and North Africa and access to multiple markets worth USD 25 trillion of GDP.

#### iv) Population of Turkey

Turkey has a fairly large domestic market with a population of over 70 million. This includes large proportions of domestic populace as well as extremely high numbers of tourists, which have been increasing over the years.

#### 14.1.5 Overview of Investment Environment in Korea, Singapore and Taiwan- extract from KOTRA

In continuation of our study, we gained more background knowledge on comparison of investment promotion agencies, incentive programs and investment environment in Korea, Singapore and Taiwan through a Study of KOTRA titled Comparative Study of Investment Environment in Korea, Singapore and Taiwan. The conclusion is as under:

Along with Hong Kong, Korea, Singapore and Taiwan are often called the 'Four Dragons' of East Asia and have achieved economic development in just a short period of time. All the three countries have been recently focusing on high-tech industries such as IT and BT based on quality human resources. These countries share similarities but are vying with each other to become the hub of East Asia. Since all the three countries have achieved outstanding economic growth, it's impossible to separate their absolute advantages from absolute disadvantages through a brief study such as this one. Still, this study will be concluded by defining the relative advantages and disadvantages of the three countries.

#### 1. Investment Promotion Agencies and Services

Singapore and Taiwan had both established investment offices in late 1950's and early 1960's after recognizing investor relations as a measure to achieve economic development. By contrast, it was not until the end of the 1990's and after going through an economic crisis that Korea began to implement policies to attract investments. Being a late starter, Korea lacks experience and know-how when compared to other countries. The Singapore Economic Development Board (EDB) not only provides investment services but also established comprehensive economic development plans. Compare to the investment offices of other countries, EDB is given more authority and implements more advanced systems.

EDB carries out IR activities mainly in the six key strategic industries that Singapore is focusing on. It selects and studies the potential investors before taking initiatives in contacting the companies to attract investment. It also has a subsidiary called EDB Investments to directly invest in profitable investment projects and provide financial support. By contrast, Invest Korea and Taiwan's DOIS are behind Singapore particularly in the area of strategic investment relations.

EDB is given full authority to establish incentives and review/determine incentives by case. This is a huge advantage in negotiating with potential investors. By contrast,

Invest Korea and DOIS are not given the authority to administer incentives and therefore have limitations. One of the advantages of Invest Korea is that there are 18 government employees dispatched by the central government to provide one-stop services. Invest Korea also has a competitive system designed to attract potential investors through a total of 36 trade centers overseas. EDB has a total of 19 overseas offices, while DOIS does not have overseas offices but rather provides investment services through the overseas offices of the Department of Economic Affairs or TAITRA. While EDB and DOIS offer both inbound and outbound investment services, Invest Korea only supports inbound investments.

## 2. Investment Incentives

Due to their short history, Korea's investment incentives have less contents and smaller scope than those of other countries. Singapore and Taiwan offers incentives to both domestic and foreign countries in order to promote both domestic and foreign investments. However, Korea offers investment incentives only to foreign investors. While Singapore and Taiwan attract investors by using various methods such as tax deduction/exemption, subsidy, share investment and low interest rate loans, Korea mostly offers tax incentives. Although Korea has established the Cash Grant in 2004, no investor is yet to benefit from it.

Singapore and Taiwan offer incentives for technology transfer, innovation, R&D and other areas for technology development, while Korea administers incentives only for investments in specific industries or regions.

Singapore offers tax holiday for up to 15 years according to the Pioneer Status, while Korea and Taiwan offers seven-year (high-tech industries, industrial support service, and individual foreign investment zones) and five-year tax holidays, respectively.

## 3. Technology and R&D Environment

All the three countries have relatively good technology and R&D environment, and are recognized for advanced technology and quality human resources. The three countries ranked high in technology and science infrastructures according to the IMD.

**Table 9: IMD Technology & Science Infrastructure Ranking – 2005**

Country	Technology Infrastructure	Science Infrastructure
Korea	2 <sup>nd</sup>	15 <sup>th</sup>
Singapore	3 <sup>rd</sup>	18 <sup>th</sup>
Taiwan	5 <sup>th</sup>	10 <sup>th</sup>

Korea was ranked 6th, Taiwan 12th and Singapore 35th in the world in the number of R&D personnel. In the number of patents per R&D personnel, Taiwan ranked 1st and Korea 2nd in the world, while Singapore only ranked 26th in the world in this area. In the



number of patents per citizen, Taiwan ranked 3rd while Korea came in 4th. Singapore is also behind in this area, as it only ranked 38th. Note that Due to its small population, Singapore obviously has less number of R&D personnel. In terms of ratio, Singapore is the best among the three countries as there are 0.56 R&D personnel per capita. However, Singapore is far more advanced than Korea and Taiwan in terms of intellectual property protection. Singapore also has more effective policies as well, since it has been concentrating on attracting biomedical R&D centers to Nilopolis through the 'One-North' Project.

#### **4. Logistics Environment**

All the three countries have advanced logistics infrastructure, as they are vying with each other to become the logistics hub of East Asia. Singapore Port is widely recognized as the number one port in the world. Korea's Bussan Port ranked 5th in the world, while Taiwan's Kaohsiung Port ranked 6th. These three ports are still vying to become the logistics center in East Asia.

In terms of air logistics, Korea's Inch eon International Airport ranked 3rd in the world in cargo throughput, while Changi International Airport in Singapore and CKS International Airport in Taiwan ranked 6th and 7th. In 2005 and 2006, Inch eon International Airport was voted as the best airport by the IATA and ACI. The ACI also recognized Incheon International Airport as the best airport in the quality of customs services. In 2006, Changi International Airport was recognized as the 2nd best international airport and ranked 3rd in customs services. CKS International Airport ranked low in the quality of services compared to the two airports, mainly because it's an old airport built in 1979.

#### **5. Medical Environment**

With the aim to become the medical hub, Singapore is so far successful in implementing strategic policies to attract foreign patients. Every year, a total of 270,000 foreign patients receive medical treatment in Singapore. Foreign patients account for nearly 34% of the total number of patients in Singapore. Major hospitals in Singapore hire dozens of international agents, offer hotel-style hospital rooms, and provide red-carpet services through aggressive marketing. Singapore boasts of having one of the most advanced national healthcare services as about 80% of the total number of patients receive medical treatment at public hospitals, while also attracting foreign patients to its high quality private hospitals. Both Korea and Taiwan have advanced medical infrastructure, but fail to attract enough number of foreign patients as they lack the government strategies of Singapore.

Nevertheless, Taiwan has one of the most advanced medical insurance policies, as patients only have to pay about 10% of total medical costs whereas patients in Korea are required to pay 41.9% of medical costs.

#### **6. Human Resources and the Labor Environment**

Korea, Singapore and Taiwan all are considered to have a workforce of outstanding quality and high educational levels as their strong points. The percentage of workers in each of the three countries with college or university education among the 25 to 34 age group is as follows: Singapore is ranked 3rd in the world with 45.4%, Korea 4th with 41.%, and Taiwan 5th with 40.6%. In terms of the international experience of senior managers, Singapore is ranked 6th, Korea 19th, and Taiwan 21st in the world. However, English communication is difficult in Korea and Taiwan, unlike Singapore where English proficiency is outstanding as it is one of her official languages. Labor relations are highly stable in Singapore and Taiwan. Singapore has had no strike at all since the 1980s. Both Singapore and Taiwan are highest in terms of lost work days, as not a single work day has been lost as a result of a labor strike or dispute. According to the IMD report, Singapore is ranks No. 1 in the world while Taiwan ranks 9th in terms of labor relations.

Korea, however, has been ranked in 60th place owing to its external image of hard-line labor unions. Nevertheless, Korean labor relations have been stabilizing rapidly. As of 2005, illegal strikes decreased by as much as 72%, while lost work days also decreased by 30%. Korea's wage competitiveness is slightly inferior as its growth rate has been higher (66.6% in 2005) than the other two countries Singapore has a very stable wage structure (3.6% growth in 2005), while Taiwanese wages increased by less than 2% over several years (2.5% in 2005). However, Korea's labor productivity increased by 8.2% in 2005, higher than the other two countries – Singapore's labor productivity increased by 1.9% in 2005 while Taiwan's increased by 4.7%.

## 14.2 Annex 2- Existing Hardware of Board of Investment

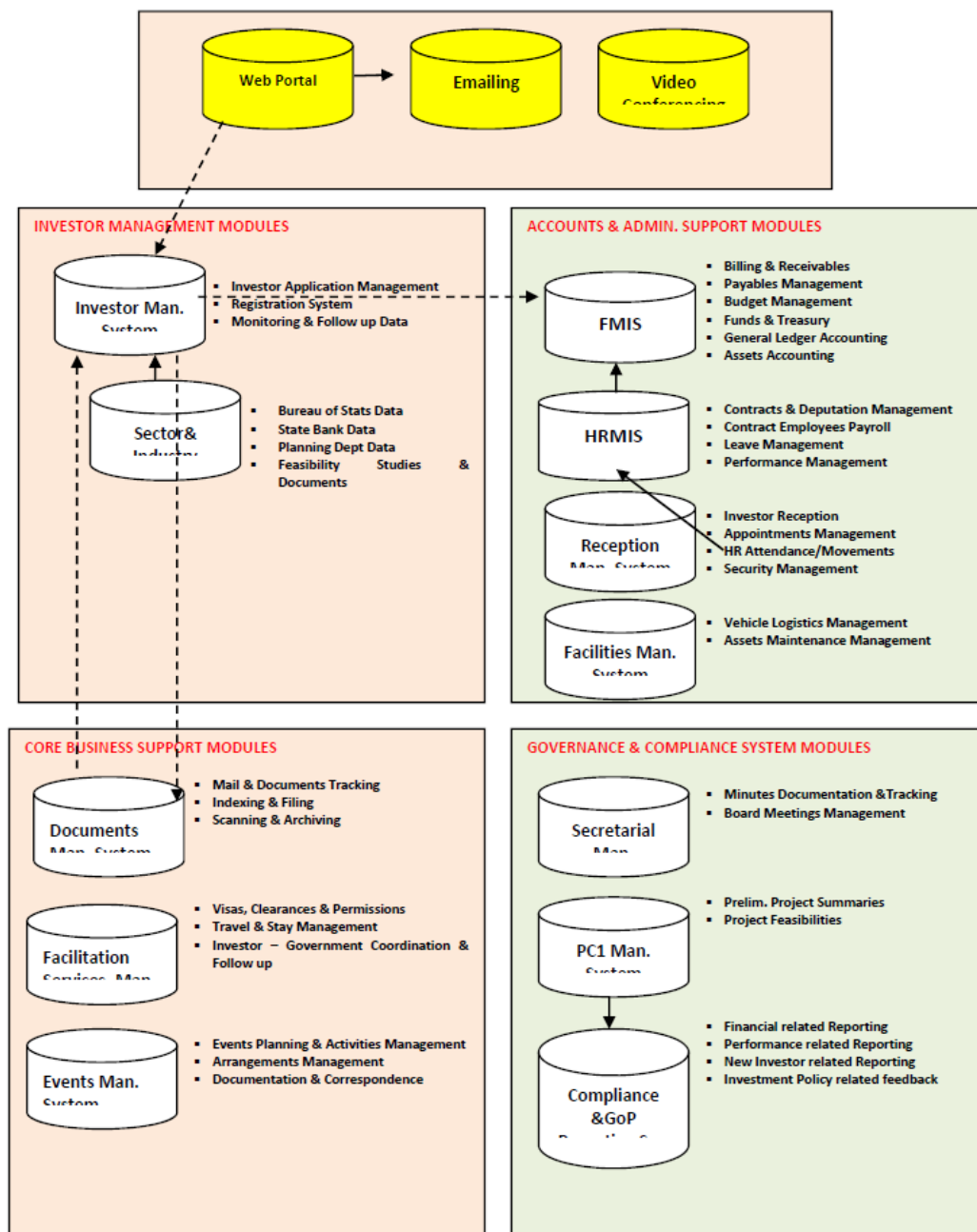
Sr. #	Name	Designation	Section	Existing Specification			Proposed up-gradation		After-up-gradation	
				Proces sor	RAM	HDD	RAM	HDD	RAM	HDD
1	Mr. MuhammadSa bir	Assistant	P&PR	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
2	Mr.QaisarMehmood	Steno typist	P&PR	1.5 GHz	256 MB	10 GB	768 MB	80 GB	1 GB	80 GB
3	Mr. AbdulRazzaq	Assistant	AM wing	1.5 GHz	256 MB)	20 GB	768 MB	80 GB	1 GB	80 GB
4	Mr. MuhammadAs lam	Assistant	China Desk	1.5 GHz	01 GB	20 GB	NA	80 GB	1 GB	80 GB
5	Mr.AtifNoor	Steno typist	PP wing	1.5 GHz	512MB	20 GB	512 MB	80 GB	1 GB	80 GB
6	Mr.Niaz Ali	LDC	AM wing	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
7	Mr.Muhamma dAslam	Steno typist	Visa Section	1.5 GHz	256 MB	80 GB	768 MB	NA	1 GB	80GB
8	Mr.NawazQureshi	Stenographer	AM wing	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
9	Mr.AdeelSaqib	Steno typist	IF wing	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
10	Mr.Muhamma dYousaf	PS to EDG-II	EDG-II	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
11	Mr.MalikAfzal	Assistant	EDG-II	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80GB
12	Ms.FakhraSan am Raja	Project Coordinator	IF wing	1.5 GHz	1.0 GB	20 GB	NA	80 GB	1 GB	80GB
13	Mr. AneesAkhtar	Stenographer	PP wing	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
14	Mr.AzamBhind ar	Steno typist	Legal wing	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
15	Mr.Muhamma dShahid	LDC	A &E wing	1.5 GHz	256 MB	20 GB out of order	768 MB	80 GB	1 GB	80 GB
16	Mr.Aurangzeb Janjua	Assistant	General Section	1.5 GHz	1 GB	20 GB	NA	80 GB	1 GB	80GB
17	Mr.Shaukat Ali Channa	Assistant	General Section	1.5 GHz	1 GB	20 GB	NA	80 GB	1 GB	80 GB
18	Mr.Muhamma dShahzad	Stenographer	Director (Admin)	1.5 GHz	1 GB	20 GB	NA	80GB	1 GB	80 GB
19	Hafiz Abid	Assistant	EDG-I	1.5 GHz	1 GB	20 GB	NA	80 GB	1 GB	80 GB
20	Mr.Zulfiquar	Data Entry	HR	1.5	256	20 GB	768 MB	80 GB	1 GB	80 GB

	Ahmad	Operator	Section	GHz	MB					
21	Mr.Atif Noor	Assistant	Chairman's Office	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
22	ISA Server	Used for internet sharing	Computer section	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
23	Print Server	Used for internet sharing	Computer section	1.5 GHz	256 MB	20 GB	768 MB	80 GB	1 GB	80 GB
24	AtifKhattak	LDC	ASEAN	1.5 GHz	512 MB	250 GB	512 MB	NA	1 GB	250 GB



Required hardware items:

RAM 512 MB	=	18 Slots
RAM 256 MB	=	16 Slots
HDD 80 GB	=	22 HDD

### 14.3 Annex 3- Board of Investment' Management Information System and Enterprise Business Architecture (High Level)





## 14.4 Annex 4- Presentation to the Stakeholders/Private Sector



### Private Sector Consultative Workshop On the Role of BOI

#### Presentation road map

1. Introduction & Background
2. What is the role of BOI?
3. Expected Results set by BOI Policy, Achievements
4. What role should BOI have for increasing investment in the country?



2

## Introduction & Background

- USAID through their implementing agency Chemonics has hired Grant Thornton to assist the BOI in restructuring of operations by increasing capacity and efficiency and by providing assistance in improving the overall investment climate in the country.
- The scope of our work for this assignment will include:
  - Literature review of all available information through primary and secondary resources
  - Present an overview of existing state of BOI, its beneficiaries, BOI's current management, and organizational structure; and
  - Identify immediate solutions in terms of systems to help BOI achieve its mandate
- Our mandate for restructuring of BOI is to identify answers to the following questions:
  - How can BOI achieve expected results outlined in BOI's Investment policy/FDI strategy?
  - Key challenges BOI faces while trying to achieve these expected results?
  - Tasks needed to be done to address these challenges
  - Identification of BOI's target clients and beneficiaries
  - Systems for BOI to periodically measure performance against stipulated results



## Introduction to Grant Thornton

Grant Thornton International is one of the world's leading professional service organizations

Anjum Asim Shahid Rahman (AASR) is a leading firm of chartered accountants and management consultants representing Grant Thornton International in Pakistan

AASR comprises of 11 partners, 5 directors and total staff strength of over 500 with varying skills and qualifications operating from offices in Karachi, Lahore and Islamabad.

Core services of the firm include Specialist Advisory Services, Audit, Accounting, and Taxation Advisory Services

Our Specialist Advisory Services group offers services related to customized market research, feasibility studies, business plans, transaction advisory, business restructuring, due diligence & etc.



### What is the BOI?

- The Pakistan Investment Board (PIB) was established in October 1990 → later renamed the Board of Investment (BOI)
- Currently works as an autonomous body under the BOI Ordinance; with a Board representation from the Public as well as Private Sectors
- BOI has aimed to:
  - promote investment in all performing sectors of Pakistan's economy
  - enhance Pakistan's overall international competitiveness
  - contribute to Pakistan's economic, industrial and social development
  - create the image of Pakistan as an attractive investment foundation for current and future investors
  - act as a focal point of contact for prospective investors, both domestic and foreign
  - provide investors with information and assistance in coordinating with other Government Departments & Agencies

### What does the BOI do?



*To promote, encourage and facilitate both local and foreign investment*

As part of their FDI strategy 2012, BOI intends to undertake the following additional action plans:

- SEZ Development
- Internal Capacity Development
- Financial Sustainability



### **What services does BOI provide you?**

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As per its ordinance, BOI's functions encompass the following:

#### **Policy Advocacy and creation →**

- i. review the national investment policy and laws
- ii. initiate sector investment proposals which may require specific treatment to propose incentives.

#### **Network & Coordinating →**

- i. establish Overseas Commissions.
- ii. liaise with private sector trade bodies and associations.
- iii. co-ordinate with government bodies with regards to policies.



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#### **FDI Promotion →**

- i. identify and promote the investment opportunities in different sectors and their promotion in Pakistan and abroad.
- ii. maintain a data-base of investment projects.
- iii. negotiate and finalize agreements for protection and promotion of investments.
- iv. develop a marketing, image-building and public relations strategy.

#### **Investment Facilitation →**

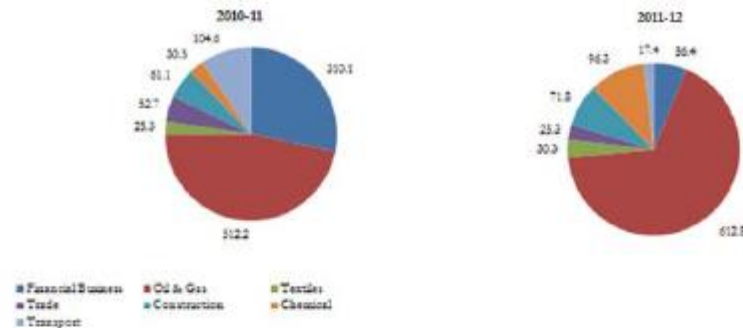
- i. provide one window facilities to investors by concerned Federal and Provincial agencies.
- ii. monitor the progress of investment projects at all stages and ensure prompt implementation and operation.





## Target Sectors and FDI Split

### Key Sectors of FDI in 2010 to 2012



### Target Investment Sectors:

- Agriculture (including food processing)
- Textiles
- Power generation & distribution
- Oil/gas/mining
- Construction and automotive

## Expected Results in BOI Investment Policy 2012

- Future targets as net FDI inflows of:
  - US \$ 2 billion in 2012 -13
  - Growing 25% in subsequent years
  - At least \$5.5 billion per year from 2017
- BOI aims to attain the following targets:
  - Average growth rate of 7 – 8 % per year
  - Employment for an increasingly urbanized population (230 – 260 million by 2030)
  - Building a knowledge-based economy and prioritizing the development of human capital
  - Enhancing the global competitiveness of the Pakistani economy from 118 as the 2011- 12 rank to 50 by 2030 (from 142 benchmarked countries)
- These aims will be guided by the following enablers:
  - a) Reducing the cost of doing business in Pakistan
  - b) Reducing the processes of doing business (Moving towards one window operations)
  - c) Ease of doing business with creation of industrial clusters and Special Economic Zones
  - d) Linkages of trade, industrial and monetary policies for greater convergence



### Success Stories

- **Korea:** Lotte Group, POSCO, Concentrix
- **Thailand:** CP Group
- **Germany:** Metro Cash & Carry
- **KSA:** Al-Tuwairqi Steel Mills, Centaurus

### Private Sector Perception of BOI

- What role do you think BOI should have for promoting investment climate in the region?
- What are the steps BOI should take to overcome hurdles and challenges in attracting more investment in Pakistan?

THANK YOU



#### 14.5 Annex 5- Minutes of Meetings with Federation of Chamber of Commerce & Industry held on 03 December 2012

##### PARTICIPANTS:

1. [REDACTED], Vice President, FPCCI
2. [REDACTED], Vice President, FPCCI
3. [REDACTED], Vice President, FPCCI
4. [REDACTED], Vice President, FPCCI
5. [REDACTED], Director General FPCCI
6. [REDACTED], Chairman Standing Committee on R&D & Advisor on Social Sector, FPCCI
7. [REDACTED], Deputy Director, Board of Investment
8. [REDACTED], Director, Grant Thornton Pakistan
9. [REDACTED], Associate, Grant Thornton Pakistan

##### Proceedings/Decisions:

1. The meeting started with the recitation of Holy Quran.
2. [REDACTED] welcomed the participants and briefed the attendants about FPCCI, its role and its constituency. He informed that all the 96 chambers of commerce and industry of Pakistan are members of FPCCI. In the business environment context, he emphasized on rationalizing the tax structure in Pakistan, improving the security conditions and facilitation of foreign investors.
3. [REDACTED], Director Advisory Services, Grant Thornton introduced Grant Thornton International, Board Of Investment (BOI) and its targets in the light of Investment Policy and FDI Strategy. He requested the participants to provide their views on how the BOI should be achieving its targets as well as how it can improve its service delivery.
4. FPCCI expressed their serious reservation on the targets set by BOI in the given conditions of Pakistan especially the deteriorating law and order situation, non-serious attitude of BOI Officials and their inability in interacting with private sector.
5. In the opinion of FPCCI, the present structure of BOI is outdated and the bureaucratic structure restrains one-window operations. BOI is neglecting, industrial, agriculture and livestock sectors, which have large potential, given the dynamics of their region.
6. FPCCI suggested that the structure of BOI must be structured on modern lines. BOI should conduct healthy meeting sessions with FPCCI so that joint efforts may be synergized to achieve FDI targets.
7. Feasibility reports should be prepared for different industrial sectors by BOI along with stringent policy making.
8. BOI should follow the foot prints of similar successful organizations operating in neighboring countries like Bangladesh and India and restructure its self on the same footings to boost investments, exactly in the same manner and effectiveness.
9. Undue hurdles in the investment process should be eliminated from the structure to enable one-window operations.
10. BOI policies should not fluctuate or be affected by the sudden drift in political circumstances or the policies.

11. BOI should improvise at grass root level and direct its efforts towards investment in energy and utilities sectors.
12. It was suggested that BOI of Bihar-India should be looked at, as a model for instigating investment. In spite of similar challenges, that region has flourished as the back of steady investment policy and campaign by their local BOI.
13. It was also suggested by one member that sector profiles should be made with the help of business associates in the country that have investment potential, which should then be used as marketing tools by BOI in their match making ventures in international market.
14. ██████████ concluded the meeting by thanking USAID on taking such initiative to put collective national wisdom behind restructuring of BOI

#### **14.6 Minutes of Meetings with Karachi Chamber of Commerce & Industry held on 03 December 2012**

##### **PARTICIPANTS:**

1. ██████████, President KCCI
2. ██████████, Secretary General Karachi Chamber Of Commerce & Industry)
3. ██████████, Deputy Director Board of Investment
4. ██████████, Director, Grant Thornton Pakistan
5. ██████████, Associate, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. ██████████, Director Advisory Services, Grant Thornton introduced Grant Thornton, Board Of Investment (BOI) and its targets in the light of Investment Policy and FDI Strategy. He requested the participants to provide their views on how the BOI should be achieving its targets as well as how it should be restructured under the present USAID initiative to improve its service delivery.
2. KCCI expressed their concern over the viability & achievability of BOI targets. Targets should be practical and achievable and BOI should focus on removing hurdles with the investment process rather than attracting new investors.
3. KCCI emphasized on establishing the One-Window operations of BOI.
4. The present circumstances and particularly the highly deteriorated law and order situation are discouraging foreign as well as local investors, in light of which it would be impossible to achieve the FDI targets as mentioned in the FDI Strategy of BOI.
5. BOI should focus on investment in Energy, Agricultural, SME and Micro finance sectors which have substantial potential of growth in Pakistan.
6. BOI is infected with serious corruption from top to bottom.
7. BOI should follow-up whatever investment they bring in to facilitate the investors and make well on all the commitments made prior to investment.
8. Commitment in BOI's policies is the primary requirement in order to repose confidence of investors in the economic environment as well as in BOI.
9. Complex procedures for stating up investment in Pakistan should be eliminated.

10. BOI should depoliticize itself, reformulate its targets that are achievable, introduce doctrine of commitment in its structure and remove the role of bureaucracy from the organization.
11. Meeting ended with thanks to the President KCCI.

#### **14.7 Minutes of Meetings with Lahore Chamber of Commerce & Industry held on 23 December 2012**

##### **PARTICIPANTS:**

1. [REDACTED], President LCCI
2. [REDACTED], AASR/Grant Thornton
3. [REDACTED], Director, BOI Lahore
4. [REDACTED], Deputy Director, BOI Lahore
5. [REDACTED], member of Executive Council
6. [REDACTED], Former member of Executive Council

##### **Proceedings/Decisions:**

1. The meeting commenced with the recitation of the Holy Quran. The President appreciated the BOI and USAID for taking such an initiative. He also welcomed the people for travelling and making effort to meet with the chamber to give their views.
2. [REDACTED] highlighted the fact that his main mission was to basically gain the understanding from the Lahore Chamber of commerce which was identified as a key stakeholder in private sector with regards to how it perceives the role of BOI in the promotion of investment in Pakistan both in terms of foreign and local investment and what more critically the how can BOI achieve the targets specified in the Investment Policy and what role BOI can play in prompting this prospect.
3. [REDACTED] also highlighted the objectives of BOI, its scope of work, rules, responsibilities and operations. He clearly identified that apart from other mandates of supporting in foreign investment it is also playing a role in ensuring that a good policy perspective is being developed enabling far better investment in the country. He emphasized on the major issues which were an impediment in the state of investment promotion and other areas and approaches BOI could adopt through which investment could be facilitated and promoted.
4. [REDACTED] emphasized that addressing hurdles like security, proper infra structure, services and more importantly water, power and gas is prerequisite without whom industry cannot survive. He mentioned three issues that must be looked at, as under:
  - Promotion of privatization and ways in which this sector can be improved in a better way.
  - Large industrial sectors are the areas where foreign investment is being injected substantially and the concentration of BOI's policies in supporting them and as a consequence to that, small and medium enterprises (SME) were being ignored. BOI as a policy must separate and segregate dimensions of participation or area investment into two segments that are one for large scale industry and one for SME sector.

- Policy perspective of BOI which must be clearly directed in order to attract the investment from the diasporas as at the moment it had a broad based policy and such a policy usually ends up for inward investment being sort out by foreign investors.
5. Apart from that [REDACTED] also mentioned few areas which need to be concentrated upon by the BOI. One sector where there is no policy perspective is about the Pakistanis who have started residing abroad are identified as the largest prompters of investment into the country with greater prospective and their contribution at the moment is through foreign remittance and where inward investment by BOI is not being targeted at all.
  6. The other area which was identified was the external image building prospect that is one of the greatest blocks to hurdle the inward flow of investment in Pakistan. Many other countries have started using their investment promotion agencies through which coordination effort is being made towards image building in the outer country where as in our country this is a droll which has been left primarily to be handled by foreign missions and there is no major agency in Pakistan which is co-coordinating the effort of image building. Thus this role should be taken up by BOI.
  7. He added that embassies abroad have foreign councilors, which under the control of ministry of commerce and under functional control of ministry of foreign affairs, are promoting trade or foreign relations but there is no attention being paid to foreign investment by them because there is no forum through which these commercial councilors are being directly attached. They should be properly addressed by the related ministries with a well directed mandate in order to promote the investment.
  8. As far as with in the country network is concerned, BOI must have a very clear direction on how the coordination between the offices should work and effort needs to be made in the development of industrial status.
  9. LCCI had a clear view that work needs to be done in enabling and facilitating BOI to better manage its role in promoting industrial status in the country and play its role more effectively.
  10. LCCI also mentioned that the Export Processing Zone which has been set up in Pakistan held to be successful economic zone and they are looking forward at the possibility of setting up an EPZA at Lahore. The rules and regulations being made should also include in them the prospect and possibility that the extensions of successful zones being carved out in up north should also be facilitated.
  11. Other area was the investment facilitation by the Government in terms of sovereign guarantees. Now Punjab was not given its due share which is government supportive for the investment being made in this perspective. Most sovereign guarantees being facilitated by investment in other parts of the country as compared to Punjab therefore they needed to bring about a rationalization into this.
  12. In the end the Lahore Chamber members highlighted that these were some of the areas where they felt that the intervention of BOI on the present structure could be used to make the overall environment better and they look forward to BOI in playing its role in facilitating this.
  13. The meeting ended with a note of thanks to the President LCCI and their honorable participants.

### **Annex 8- Minutes of Meetings with Islamabad Chamber of Commerce & Industry held on 01 December 2012**

#### **PARTICIPANTS:**

1. [REDACTED], President, ICCI
2. [REDACTED], Vice President, FPCCI & ICCI
3. [REDACTED], Director Latif Group of Companies
4. [REDACTED], Chairman, Maroof International Hospital & Silver Oaks
5. [REDACTED], Director Textile Cotton Mills Limited
6. [REDACTED], Director, The Educators, Islamabad
7. [REDACTED], Former President ICCI & CEO, MEP
8. [REDACTED]
9. [REDACTED]
10. [REDACTED]
11. [REDACTED]
12. [REDACTED]
13. [REDACTED]
14. [REDACTED]
15. [REDACTED], Director Advisory Services, Grant Thornton Pakistan
16. [REDACTED], Project Coordinator, Grant Thornton Pakistan
17. [REDACTED], Associate, Grant Thornton Pakistan

#### **Proceedings/Decisions:**

1. Grant Thornton thanked the Chairman for allocating time for meeting at short notice and briefed the participants about the background and outcome of the assignment.
2. ICCI suggested that there should be appropriate representation of elected representatives of various chambers of Pakistan who are accountable to their respective chambers about their performance. This would also ensure monthly meeting of BOI board and thus the private-public partnership will ensure progress towards industrialization of the country.
3. There are strong believes that present officials of BOI are misusing the name of Chairman and working in their own interest.
4. The selection criteria of delegation members of foreign visits/exhibitions/seminars should be made public and adhered to in true spirit.
5. Present law of BOI does not give powers to its officials to produce results and as such investors do not go to BOI as it is not empowered to address their business needs.
6. There should be one window operations in BOI for all practical purposes and investors should not be made shuttle cock amongst the various government departments.
7. The compensation of officials of BOI should be linked with their performance. 1% of FDI should be marked for BOI's activities.
8. BOI should develop a book/CD incorporating the comments of existing foreign investors operating in Pakistan as their words will be more relied upon and endorsed by international business community.



9. BOI should be the most informed department of the government to provide all types of information about infrastructure, law, utilities, market and procedures for doing business in Pakistan.
10. In the context of SEZ, ICCI mentioned that cost of land in Islamabad is very high and investor will be left with very little money for machinery and working capital. Grant Thornton informed that it is already conscious of this aspect and have proposed the allotment of land in SEZ on lease basis which will drastically cut investment in land and putting the differential in machinery and working capital.
11. In the context of CDA, ICCI mentioned that their 90% issues are with CDA and therefore ICCI should have its representatives on its board. The operations of CDA should be IT enabled in order to reduce the chances of corruption on the lines with NADRA etc.
12. The meeting ended with a note of thanks to the President ICCI and their honorable participants.

#### 14.8 Minutes of Meetings with Rawalpindi Chamber of Commerce held on 30 November 2012

##### PARTICIPANTS:

1. [REDACTED], President, RCCI
2. [REDACTED], Senior Vice President, RCCI
3. [REDACTED], Vice President, RCCI
4. [REDACTED], Ex. Senior Vice President, RCCI
5. [REDACTED], Member Executive Committee, RCCI
6. [REDACTED], Former Vice President, RCCI
7. [REDACTED], Chairman Standing Committee, RCCI
8. [REDACTED], Public Sector Investment Policy Specialist
9. [REDACTED], Organizational and Human Resource Specialist
10. [REDACTED], Director Advisory Services, Grant Thornton Pakistan
11. [REDACTED], Supervisor, Grant Thornton Pakistan

##### Proceedings/Decisions:

1. [REDACTED] started by saying that the meeting would begin in the name of Allah. He then introduced RCCI as the third largest chamber in Pakistan with over 4000 employees, in charge of such large projects in the past as the ISE and the Dry Port, currently working towards projects such as establishing Business Women Centers.
2. Grant Thornton thanked the RCCI for allocating some time out of their busy schedule to discuss the current situation of the BOI. [REDACTED] introduced the Grant Thornton team. This was followed by him giving a short presentation on the current workings of the BOI.
3. With the end of the presentation, the question was posed to the RCCI as to what improvements they felt the BOI should bring about. [REDACTED] answered the question first by saying that first of all the BOI must work towards acting as a Board of Investment for the entire Pakistan, not just foreign investors. He thought that it should be an integral function of the BOI that they look at Pakistan first and focus on outward investment as well as inward, because if Pakistanis do not invest money anywhere, why would anyone invest here. This can only be done if they act as a proper Investment Board.
4. [REDACTED] followed this by saying that what we highlighted in the presentation was the BOI's mandate. He said the BOI needed to create a proper environment for business, by projecting a soft image for Pakistan and having a solid business plan in place, as currently there is no viability in their plans. He named the current SEZ endeavor as an example, stating that a Chinese delegation they met recently along with others had been bringing forth issues of the shortages of electricity. Furthermore, he said the SEZ project should consider Pakistan's surroundings and should be targeting the Pakistani market as well. This can be done by locating close to the Chinese and Indians, hence function as an export oriented market.
5. [REDACTED] asked for clarifications on whether our question was to reengineer the BOI or whether it was to make strategic initiatives for the future in order to better assist us. [REDACTED] explained the scope of Grant Thornton's work to clear up [REDACTED]'s query. [REDACTED] continued and said that currently they think there are

administrative issues in the BOI alongside the strategic aspects. The business community currently wanted to know how they could make the BOI instrumental in bringing in investment in different sectors (such as the electricity sector if there are such electricity shortages) because sponsors (local & foreign) do bring in huge projects and yet these projects do not come to a close. He questioned as to why this happened? He further said that everyone has been waiting for some outputs and results. However, things are and have been in the pipeline for a while, so when the RCCI discusses this with their clients, they cannot answer their questions, causing clientele to not move forward with their plans.

6. [REDACTED] then provided his recommendation to the BOI and said that he seconded what the president said regarding a focus on the local market and on investment moving outwards, for example from Karachi to Bangladesh or Sri Lanka. He also suggested that currently in embassies all over the world, there is an unfortunate attitude towards foreign investment. We understand that these embassies are the gateway and the first step towards investment, but what is the BOI doing to tackle this issue? There need to be trained individuals who create a positive image of Pakistan. [REDACTED] responded and said that unfortunately the BOI can only do this to a limit with regards to embassies and mentioned that they currently enlist HICs for this purpose. [REDACTED] responded that there are individuals such as the foreign minister to Japan who are incredibly proactive, and that these were the types of people we need to have abroad, having a core focus of investment and trade. Other members present in the meeting commented that currently all the delegations posted abroad for this purpose are not based on merit. They need to be technical people who can look after the trade.
7. A comment was made on USAID focusing on a public-to-public disbursement of money and that they currently did not interact with the public. This perception should be conveyed to the USAID that common people believe that no donor money is actually seen affecting their daily lives.
8. It was further pointed out that according to the BOI's targets; they are striving to attain 2 billion dollars of investment this year. However, the current public subsidy is 5 billion dollars. So what is the point? The need for some privatization was brought up. [REDACTED] explained that currently, the privatized sector is in bad shape and it has been a few years since any new company has been privatized.
9. [REDACTED] recommended that the BOI should conduct their research based on splitting each region into its strengths and weaknesses to give them a better idea of FDI coming in to a specific sector and to then appropriately make matches with investors. Furthermore, he said that this can be done by the BOI making proper linkages with the Chamber of Commerce and with local bodies and chambers, while the government pays for this research. This is the best method to understand how the economy in the country works.
10. The second recommendation [REDACTED] made was that the BOI should also match make JVs but this should be categorized under a separate head in the BOI and that locals and foreigners in this category should be split. For example, he said not everyone has access to the BOI currently.
11. [REDACTED] said that the BOI will have to take a proactive approach in having a say in Pakistan's fiscal policy and that they should be taken on board with regards to

investment. [REDACTED] said that this is the procedure already adopted. However he agreed that this should happen for JVs specifically. [REDACTED] said there should be some interaction with local areas as well for example, Chaka and Jhelum. [REDACTED] mentioned that there should be one or two heads with a sole focus on agriculture and manufacturing for JVs and also an additional focus on the SAARC region and China as they have a vested interest in Pakistan.

12. It was felt that the BOI needs to be made autonomous in the true sense as they have many issues that require them moving away from political influence.
13. The vice president mentioned that there was a need to give the industrial sector some due reference as well.
14. [REDACTED] said that he believed that services is a huge sector in Pakistan and that there is much opportunity across the board, including education and health, wholesale and retail markets. There needs to be some focus on technology transfer or recommendations were made on taking on value added services where as opposed to raw projects, it'll be easier for the BOI to attract interested investors. He gave the example that currently Pakistan did not manufacture ECG's itself.
15. [REDACTED] made the last comment by saying that foreign entities should have legal cover. There is a heavy need for proper post investment follow up.
16. [REDACTED] told the Grant Thornton team that they would create a working paper of the recommendations made and would send this to them. The meeting ended with a note of thanks to all members of the RCCI.

#### **14.9 Minutes of Meetings with Overseas International Chamber of Commerce held on 03 December 2012**

##### **PARTICIPANTS:**

1. [REDACTED], CEO&Secretary General OICCI
2. [REDACTED], Deputy Director, Board of Investment
3. [REDACTED], Director, Grant Thornton Pakistan
4. [REDACTED], Associate, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. [REDACTED] briefed about the role of OICCI and its rules which primarily included the liaison between the overseas investors, coordination with corporate sector and public sector. It currently comprise of 189 corporate members. The major role of OICCI is to address collectively the issues of the different sectors and provides its recommendations to various public sector organizations, including FBR.
2. The OICCI interacts with several organizations in Pakistan in order to compile research for its members. Major members are from the energy (Oil & gas) sectors, tobacco companies etc. 80% of the members' aggregate assets exceed 100 billion dollars and 58 of the total members are listed in Karachi Stock Exchange (KSE).
3. Chiefly the role of OICCI starts in post investment phase.

4. [REDACTED], Director Advisory Services, Grant Thornton introduced Grant Thornton International, Board Of Investment (BOI) and its targets in the light of Investment Policy and FDI Strategy. He requested [REDACTED] to provide his views on how the BOI should be achieving its targets as well as how it can improve its service delivery.
5. [REDACTED] narrated the ordeal they met when in year 2011 OICCI convened International Investment Conference where 25-billionaires investors visited Pakistan, but their registration form were cancelled by BOI that were dispatched by FPCCI to those 25 investors.
6. [REDACTED] asserted the following points:
  - BOI lacks vision, direction and mission.
  - No care of investors is taken and proper focus is not being laid on the overseas investment sector.
  - No commitment of BOI is honored, perhaps due to its inability to influence ministries/departments
  - No details have been provided to OICCI about Special Economic Zones (SEZs)
  - Bureaucracy is widening communication gap between BOI and investors.
  - BOI did not conduct their own board meeting for two and a half years
  - Communication gap is the major structural drawback of BOI.
7. [REDACTED] proposed the following points:
  - BOI should professionally and realistically chalk out and communicate its missions and its vision, plans and goals.
  - Special consideration must be provided to foreign investors and interactive sessions should be held with potential investors and organizations such as chambers of commerce and universities established in various parts of Pakistan.
  - Political and bureaucratic hurdles must be removed and BOI must centralize the attention of concerned government sectors toward boosting the investments.
  - Agriculture sector must be priority of BOI.
  - Strategic planning must be done by BOI.
  - One window operation should be enacted.
8. The meeting ended with thanks to [REDACTED].

#### **14.10 Minutes of Meetings with Khyber Pakhtunkhwa (KPK)/Sarhad Chamber of Commerce held on 20 December 2012**

##### **PARTICIPANTS:**

1. [REDACTED], Secretary General, Sarhad Chamber of Commerce
2. [REDACTED], Vice President, Sarhad Chamber of Commerce
3. [REDACTED] – Senior Vice President, Sarhad Chamber of Commerce
4. [REDACTED] – Coordinator, Board of Investment
5. [REDACTED] – Managing Partner, Grant Thornton Pakistan

### Proceedings/Decisions:

1. The meeting started with [REDACTED] welcoming participants to the KPK. Chamber of commerce and information that due to an urgent engagement the president of the Chamber, [REDACTED], will not be able to participate in meeting.
2. [REDACTED] explained to the participants the reason for visiting the Chamber and taking suggestions about how Board of Investment should function and how BOI can contribute to enhance investment in KPK.
3. [REDACTED] highlighted that they are aware of the presence of the BOI and would suggest that BOI need of focus on specific existing industries such fruits, marble, leather etc. BOI needs to promote existing industries and cash in on current expertise. It was appraised that KPK Chamber has in the past communicated many times with the BOI but did not receive any response
4. Sarhad Chamber further identified that there are trade/investment opportunities available however; some of the available people in Sarhad do not have sufficient resources and knowledge to deal with foreign investors. The BOI should help subsidize business person to foreign investment conferences to bring Investment rather than government officials on government stipend to visit these foreign locations.
5. Commercial councilors should report to BOI, & Economic Activity & Potential Advocacy training should be provided by the BOI. BOI can mandate the investment focus and investment needs of the country better than the foreign services wing. It was highlighted that most of the news the Chamber receives from the Foreign office is often outdated.
6. One Platform of information so it can be result oriented. The system should be centralized and investment exploited. Recently, the KPK government has announced a formation of a provincial Board of Investment and the Federal body should work with provincial BOI to align their mandates and encourage, facilitate investment. There should be a mechanism to interlink all BOI Offices provincial to federal.
7. Information dissemination is delayed and outdated. The Sarhad Chamber further stated that it has no information about any potential BITs that the BOI is working on nor have they received any information about any investment opportunities etc from the BOI. They stated that when BOI officials return from an investment conference, a report of the conference should be shared with all Chambers rather than just an internal report.

8. Furthermore, the Chamber stated that they have had no representation in the delegations that the BOI has participated anywhere.
9. There is very little interaction between the regional offices of BOI with local chambers. Chambers however keen to work with BOI.
10. Policy framework of BOI should account for the trade agreements implications e.g. Afghan Trade.
11. Tax is the major problem and it should be liberalized to reduce the cost of doing business specific to KPK, FATA & PATA as these are war zones.
12. Policy framework should give due consideration to SMEs in less developed provinces to attract investment.
13. The investment climate in terms of law & order, good governance and vitality in judicial system are must to attract investment.
14. BOI should have a good informative and attractive website.
15. BOI should give direction and training to trade & investment staff in embassies as they are not trained how to exploit investment opportunities and nor are most even aware of the potentials present in Pakistan.
16. BOI has been many time in past contacted by chambers for seeking potential partners but BOI never responded.
17. The role of provincial BOI should be increased, and seeking investment through provincial BOI should be increased (KPK BOI specifically).
18. There should be one consolidated national platform for investment information in order to be authentic and updated in order to be result oriented.
19. BOI should connect the potential investors with local investors.
20. BOI should open and cover communication gaps and also develop & provide information on local investors for foreign counterparts.
21. There should be a transparent mechanism to take chamber nominated businessmen on BOI foreign events. Moreover, BOI should disseminate information about their foreign trips in order to let the business community what opportunities are available.
22. ██████ thanked the Sarhad Chamber for extending their hospitality and the insight provided.

#### 14.11 Minutes of Meetings with FATA Chamber of Commerce held on 20 December 2012

##### PARTICIPANTS:

1. [REDACTED], Vice President of FATA Chamber of Commerce
2. [REDACTED], President Mardan Chamber of Commerce
3. [REDACTED], Ex SPV Pakistan Federation of Chamber of Commerce & Industry
4. [REDACTED], Ex- Vice President, Member, Chamber of Commerce & Industry
5. [REDACTED], Member, FATA Chamber of Commerce & Industry
6. [REDACTED], Member, FATA Chamber of Commerce & Industry
7. [REDACTED], Member, FATA Chamber of Commerce & Industry
8. [REDACTED], Member, FATA Chamber of Commerce & Industry
9. [REDACTED], Member, FATA Chamber of Commerce & Industry
10. [REDACTED], Member, FATA Chamber of Commerce & Industry
11. [REDACTED], Member, FATA Chamber of Commerce & Industry
12. [REDACTED], Member, FATA Chamber of Commerce & Industry
13. [REDACTED], Member, FATA Chamber of Commerce & Industry
14. [REDACTED], Member, FATA Chamber of Commerce & Industry
15. [REDACTED], Member, FATA Chamber of Commerce & Industry
16. [REDACTED], Member, FATA Chamber of Commerce & Industry
17. [REDACTED], Member, FATA Chamber of Commerce & Industry
18. [REDACTED], Member, FATA Chamber of Commerce & Industry
19. [REDACTED], Member, FATA Chamber of Commerce & Industry
20. [REDACTED], Member, FATA Chamber of Commerce & Industry
21. [REDACTED], Member, FATA Chamber of Commerce & Industry
22. [REDACTED], Member, FATA Chamber of Commerce & Industry
23. [REDACTED], Member, FATA Chamber of Commerce & Industry
24. [REDACTED], Member, FATA Chamber of Commerce & Industry
25. [REDACTED], Member, FATA Chamber of Commerce & Industry
26. [REDACTED], Member, FATA Chamber of Commerce & Industry
27. [REDACTED], Representing FATA Government
28. [REDACTED], Managing Partner, Grant Thornton Pakistan
29. [REDACTED], Coordinator, Board of Investment
30. [REDACTED], Associate, Grant Thornton, Pakistan

##### Proceedings/Decisions:

- 1) [REDACTED] Vice President of FATA Chamber of Commerce/FPCCI welcomed the Grant Thornton Team and introduced the participants.
- 2) [REDACTED] thanked the participants and briefed them the objective of the visit investment policy and FDI strategy targets.



- 3) [REDACTED], stated that BOI has to create opportunities for business/ people in hydropower sector and mineral resources sector and that due to current circumstances law and order situation there is lack of investment in that province. He added that in addition to mineral and hydropower sector, furniture is other important sector in KPK in which investment can be made. It was explained by other participants relating to different areas of commerce that previously there were five units of Ghee mills in FATA which are now stopped due to unrest and army operation in the area. There were 2200 people employed in the ghee mill in South Waziristan which are suffering for unemployment.
- 4) One of the participants explained that marble is another important industry in which investment is beneficial. He explained that marble sector should only be left for private sector without any intervention from the Government and separate cell should be maintained in the secretariat.
- 5) [REDACTED] reiterated the role and objectives of BOI and also highlighted the importance of investment in FATA region from BOI prospective. He explained that purpose of the meeting is also to identify what assistance BOI can provide. He explained and praises the ability of people of FATA of doing business and discussed the obstacle faced by them in doing business and access to local and international markets.
- 6) The participants explained that for investments it is very important that besides law and order situation is normal in the region, taxes should be removed on the product manufactured and sold by FATA region in and outside FATA. They discussed that mark up free loan should be provided to those business men whom industries are destroyed due to going on operation in the areas. It was pointed out that in few areas there is no availability of electricity and gas.
- 7) FATA Chamber explained that KPK is the gateway to Central Asia too and opportunities of doing business should be searched there too. Government should focus on long term policies rather than short term as frequent changes in policies and imposition of taxes and changes in tax rates effect the investor interest and they feel reluctant in investment in such areas. Further legal protection in such areas should also be provided to investors. FATA Chamber suggested it should have its representation on the BOI Board and BOI should attend all investment related meeting in FATA. Compensation should be provided in FATA region due to loss of industry. Forums should be created at national and international levels so that FATA people can advertise their products.
- 8) [REDACTED] explained that no matter what happens investor has to contribute to the Government somehow. And there are many investors in local and international markets who are willing to invest in FATA. Hence corporate culture should be introduced so that business can take place. Meeting concluded with thanks and lots of gratitude from the participants.

#### 14.12 Minutes of Meetings with All Pakistan Textile Mills Association 03 December 2012

##### PARTICIPANTS:

1. [REDACTED], Secretary Punjab Region, APTMA, Lahore
2. [REDACTED], Member APTMA and CEO Eastern Group (Textile, Leather & Dairy)
3. [REDACTED], Deputy Director, Board of Investment
4. [REDACTED], Director, Grant Thornton Pakistan
5. [REDACTED], Coordinator BOI Restructuring Assignment, Grant Thornton Pakistan

##### Proceedings/Decisions:

1. [REDACTED], Director Advisory Services, Grant Thornton introduced Grant Thornton International, Board Of Investment (BOI) and its targets in the light of Investment Policy and FDI Strategy. He requested the participants to provide their views on how the BOI should be achieving its targets as well as how it can improve its service delivery.
2. [REDACTED] appreciated the initiative of USAID and said that due to weak BOI, Pakistan has missed many strategic opportunities in the past and unfortunately, the present situation is same. If Pakistan did not start economic recovery in five years, it will not be able to bridge the gap.
3. The officials at BOI hide investment opportunities from APTMA and have not taken serious interest in revival of textile industry in Pakistan. Therefore APTMA is not interest in BOI as well because it neither cares nor takes interest to solve their issues. Moreover, BOI has also never tried to communicate their mandate and functions APTMA in order to create a synergy that can be channeled for better economic growth of the country.
4. BOI should engage sector specialist of international standing to handle project feasibilities, so as to do a better job in marketing and matchmaking with investors.
5. BOI's public communication is very poor and follow-up progress is not made available in the public domain.
6. When new investment is made, public departments start penalizing the investor with numerous levies such as commercialization fee charges, electricity and gas connections, land acquisition issues and various other charges that add to the overall cost of doing business in Pakistan. On the other hand in China, investors are provided with required land with constructed sheds, telephone connections etc. to immediately start production in the shortest possible gestation period.

7. Despite claims by the government, dairy industry is still facing issues especially in the case of duty on imported machinery. Every department in government is claiming to support dairy industry but practically nothing is happening to promote and encourage investment in this sector.
8. Image building of Pakistan is very important for investment and BOI is not taking up this challenge.
9. BOI should not wait for opportunities to arise. It should rather go out in the market to develop own opportunities with research. At this point of time BOI should take initiative to induce Chinese investment in textile sector of Pakistan.
10. BOI Bangladesh starts interacting with investor at the airports. Their magazines are in the planes containing latest creditable information on investment with contact numbers and coordination officers.
11. Efforts in public sector of Pakistan are made but mostly for searching opportunities of corruption.
12. Fact remains that domestic and international investors want to invest but there is no gas, electricity and security to facilitate growth and prosperity in the country.
13. Exports of Pakistan are declining in quantitative terms and government is not worried about it. The government should provide electricity, gas and financing at regionally competitive terms. The international buyers have gone to Bangladesh and due to this reason; international textile investment is being diverted to Bangladesh.
14. No Pakistani business school is producing professionals of international caliber especially marketing of Pakistan and opportunities attached to it in the international arena.
15. There is no institutional support to Pakistani businesses whereas in India government provides finances to buy raw material. Indian public institutions are very fast to respond to international market changes and they immediately provide necessary facilities to their industry e.g. when Pakistan stopped giving freight subsidy to textile industry, India immediately introduced equivalent subsidy in the shape of market incentive and resultantly our Central American market was captured by India.
16. The meeting ended with a vote of thanks to the participants.

### 14.13 Minutes of Meetings with Ministry of Commerce held on 30 November 2012

#### PARTICIPANTS:

- 1) [REDACTED], Director General Trade Policy, Ministry of Commerce
- 2) [REDACTED], Public Sector Investment Policy Specialist
- 3) [REDACTED], Director Advisory Services, Grant Thornton Pakistan
- 4) [REDACTED], Supervisor, Grant Thornton Pakistan

#### Proceedings/Decisions:

1. Grant Thornton thanked [REDACTED] for taking time out of his day to discuss the current situation of the BOI. [REDACTED] introduced the Grant Thornton team and apprised [REDACTED] of the scope of GT's work.
2. [REDACTED] posed [REDACTED] with the query on his interaction with the BOI and any recommendations on how it can work better. [REDACTED] responded by saying that the MOC interacted with the BOI quite frequently as there is an interdependence and connection between trade and policy. He said that the Ministry of commerce is very well aware of the existence of BOI and its work; however, he indicated that it is time for improving. He used France's government as an example to depict that until a government doesn't unify on policy formulation, results could never be achieved.
3. [REDACTED] also commented that middle management of BOI should have been involved even in this process as it is ultimately a capacity building exercise.
4. Answering a query regarding the liberalization and outward orientation of the 2012 investment policy, [REDACTED] said that development is a welfare enhancing policy. There is no doubt that Pakistan should have outward FDI and there are many tools to attract such investment. However, he indicated that the tools currently being used by the BOI are problematic. Tariffs are increasingly being used as a tool of investment attraction whereas the appropriate tools should include services or the country's existing economy etc. He said there was also a need for BOI to quantify benefits and costs on a sectoral level.
5. [REDACTED] then discussed the lack of capability at the BOI. He mentioned that as opposed to what is happening, things like litigation should be regarding land acquisition or provision of utilities, EPZs should rest with industries not the BOI and coordination should be enhanced with provincial authorities. He questioned the capacity at the BOI to analyze a problem and solve it. He commented on the fragmentation in the decision making process regarding the choice of the right FDI and that no one had the basic understanding that protection of one sector would ultimately affect all sectors. This requires an assessment of their capabilities. He further backed up his statement by saying that there had been no proper resource seeking, market seeking or export seeking FDI; so did the people in charge at the BOI really understand investment policy?

6. [REDACTED] also briefly discussed the lack of regulatory scope of the BOI.
7. [REDACTED] then discussed how local investors were being discriminated against and that nothing was being done for them by the BOI. No attention had been paid to domestic commerce, and there was no past documentation, indicating a disconnection between commerce and trade. He said that there needed to be some linkage between the two policies and in light of this, the BOI will be able to understand what kind of firm they should be.
8. Answering a query regarding BITs, [REDACTED] responded by saying that there is a mentality of handing out favors and this speaks quite openly to the capacity of the people creating the BITs without consideration of having to implement it. He said that till date, BOI has not come up with anything solid in this regard. In India, the state facilitates investment (for ex. subsidized interest rates for investors); therefore, the next generation policy ought to move from promotion towards protection. However, he followed this by commenting that if this was done here, consideration must be given to how local investors would compete. If outward investment' costs were greater than the benefits, then the BOI must reconsider how this needs to be done. He stressed that there was a need to review existing BITs as they are not beneficial (Kuwait's BIT is too liberal).
9. This was followed by a comment on BOI not knowing the cost of its policy on economic growth of the country. [REDACTED] said that they have failed to leverage foreign investment in Pakistan, as even the investors who bring in investment exit the Pakistani market after some time. So, what in reality is their economic policy's place?
10. [REDACTED] indicated that some emerging challenges were the royal treatment larger companies got as opposed to small and medium sized investors (although they are painstaking, they could lead to a better economy), and the lack of commercial courts for FDI dispute resolutions/ settlements.
11. [REDACTED] summarized by saying that currently he felt there was no awareness in the BOI on the cost of economic governance. He further said the BOI needed to be clear on its policy (removal of tariff protection), required reviewed sectoral profiles (ECC requires 2 page summaries, which are not only short, but also not completed/reviewed till the last minute), an understanding of their scope of work to stop wasting time on unnecessary items, review of policy, improvement of legislation, improvement of capacity, understanding of the necessity of stakeholder consultation (in case a local investor is weak knowledge wise, sponsor ministries must have some mirror capacity to act as a knowledge center- maybe through inviting academia for consults), critical look at local investors, communicate with agencies such as SMEDA and others on a policy level, a halt on new BITs for a few years and review existing ones, existence of someone who looks at monetary policy and credit rating facilities etc and whether the BOI's policies go against competition policies.

12. He has also suggested that maybe the BOI should be with the Ministry of Commerce and Industry.

13. The meeting ended with a note of thanks to [REDACTED].

#### 14.14 Minutes of Meetings with Ministry of Industries held on 29 November 2012

##### PARTICIPANTS:

1. [REDACTED], Joint Secretary (Investment), Ministry of Industries
2. [REDACTED], Deputy Secretary, Ministry of Industries
3. [REDACTED], Section Officer, Ministry of Industries
4. [REDACTED], HR Specialist, Grant Thornton, Pakistan
5. [REDACTED], Coordinator, Grant Thornton, Pakistan

##### Proceedings/Decisions:

1. Grant Thornton thanked [REDACTED] for taking time out of her busy schedule to discuss the current targets and situation of the BOI. [REDACTED] introduced the Grant Thornton team and apprised [REDACTED] the scope of GT's assignment.
2. BOI was part of Ministry of Industries and in order to be more effective, efficient and synergetic, both should be merged.
3. [REDACTED] commented that the already ambitious targets set by the BOI have become even more challenging in the given conditions in Pakistan.
4. BOI must develop its back office for knowledge management, policy development and databank.
5. BOI must look at foreign models of investment promotion and adopt best practices.
6. BOI should develop sector specific projects/profiles at professional standards and not the basic academic one.
7. The new investor's entrant policy of BOI is not on the same page with Ministry of Industries. Although the motive is the same but approach is different. Ministry of Industries encourages investment by protecting the interest of local/existing industries. BOI only sees investor whereas MOI is bound to see various factors especially competition and protection of local industries in order to provide level playing field.

8. There are only seven to eight Export Processing Zones in Pakistan. In Special Economic Zone (SEZ) and Export Processing Zone framework (EPZ), the incentives are the same but in EPZ; the entire infrastructure is developed by government. Chinese EPZ in Kala Shah Kaku around Lahore failed because Punjab Government did not provide land.
9. Our youth is our biggest asset and unfortunately, due to lack of policy, majority is neither skillful nor educated. The intellectual is leaving country and we are left with below average manpower.
10. There are many investing opportunities available and only proper market research is needed. Daewoo identified and catered needs of Pakistani public and they are earning while providing service. The manpower developing institutions only need to be told what type of skills are required to be developed and they will develop manpower accordingly. Workshops are conducted by SMEDA about whom neither the vendor nor the ministries are aware. Structured efforts are required to improve the overall skills to cater for the needs of international and domestic investors. Every initiative is being taken in isolation and there is very little coordination amongst government institutions.
11. The meeting ended with a note of thanks to [REDACTED] and her team.

#### **14.15 Minutes of Meetings with Planning Commission of Pakistan held on 29 November 2012**

##### **PARTICIPANTS:**

1. [REDACTED], Chief Planning Commission
2. [REDACTED], Chief, Industry & Commerce Section, Planning Commission
3. [REDACTED], Chief Macro Economic Section, Planning Commission
4. [REDACTED], Deputy Chief, Planning & Dev Division, Planning Commission
5. [REDACTED], Assistant Chief, Planning & Dev Division, Planning Commission
6. [REDACTED], Assistant Chief, Planning & Dev Division, Planning Commission
7. [REDACTED], Org & Human Resource Specialist, Grant Thornton
8. [REDACTED], Project Coordinator, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. Grant Thornton thanked the participants for meeting at short notice and briefed them about the background and objectives of the assignment
2. [REDACTED], Chief Planning Commission provided a brief introduction of the Planning Commission and strongly emphasized upon strengthening the regulatory aspect of BOI in order to enable it to get the required tasks done.

3. Planning Commission suggested making the taxation system more easy and liberal to promote local businesses which shall act as vehicle for promoting FDI in Pakistan thorough various modes and outcomes.
4. Planning Commission suggested resolving BOI's capacity issues as well as governance issues.
5. At present, there is no formal regular interaction of Planning Commission and Board of Investment to develop investment projects for marketing to domestic and international investors.
6. Planning Commission suggested providing various special privileges to domestic and international investors including citizenship of Pakistan on certain level of foreign investment.
7. Planning Commission emphasized to attract investment in such industries where Pakistan has indigenous industrial raw materials because such companies are likely to be more profitable despite inflation and will attract great foreign investment. Planning Commission also mentioned the need to improve the value chain of indigenous raw materials because in the absence of quality value chain, businesses are importing such raw materials which are indigenously available.
8. Although Planning Commission has played a remarkable role in the past towards economic development of Pakistan, its capacity to deliver in the wake of 21st century, its organization needs to be revisited and strengthen to enable it cater the future needs of Pakistan.
9. Planning Commission appreciated the effort of BOI regarding the Special Economic Zones setup and suggested to look at the Turkish and Korean models.
10. Planning Commission suggested the tri-party private public partnerships in financially feasible projects and pointed out that due to federal provincial issues, PPP is not taking place. It was noted that the political governments do not take the ownerships of the planned projects of previous government. It was further noted that the development agenda gets politically driven than national priorities.
11. The meeting ended with thanks to all the participants.



#### 14.16 Minutes of Meetings with Pak Gulf Construction Private Limited held on 29 November 2012

##### PARTICIPANTS:

1. [REDACTED] President, Pak Gulf Construction (Pvt.) Ltd
2. [REDACTED], Advisor, Pak Gulf Construction (Pvt.) Ltd
3. [REDACTED], PR Advisor to the President, Pak Gulf Construction (Pvt.) Ltd
4. [REDACTED], HR Consultant, Grant Thornton Pakistan
5. [REDACTED], Coordinator, Grant Thornton, Pakistan

##### Proceedings/Decisions:

1. [REDACTED] thanked [REDACTED] for sparing time out of his busy schedule to discuss the current targets and situation of the BOI. [REDACTED] introduced his team and [REDACTED] explained the scope of GT's work under the present assignment.
2. [REDACTED] stated that they interact with BOI and feel that BOI should be the only agency dealing with the investors and its initiatives/decision should be final and binding to the relevant agencies/departments. Accordingly BOI should be "One - Window" operator and with power to resolve the issues.
3. Regarding FDI targets and policy framework of BOI, [REDACTED] stated that no such targets or framework was ever shared with them.
4. The present Chairman of BOI is very active and he responds within minutes. However, this is individual excellence and it should be BOI's concerned staff that should be responding.
5. The overseas Embassies of Pakistan are most the first point of contact with investors and the staff there should be professionally trained to handle investors by giving them right advice and special treatment in visa issuance. Investor should have comfort and trust that in case of any issue, Embassy staff will resolve their issues.
6. The overseas Pakistanis want to invest in Pakistan but they need to be given comfort. To start with, there should be no withholding tax on the foreign currency accounts of overseas Pakistanis.
7. There should be strong accountability of the government officials involved in corruption on complaints of investors after due investigations. Practically, officials are pressurizing for corruption and if investors do not go with their plans, they create a lot of problems for them.
8. Investors are seated on sub-standard furniture and made to wait unnecessarily to satisfy the deprived ego of officials.

9. BOI should look into the investor attraction models of other countries e.g. Saudi Arabia, where investor is given gold card upon certain level of investment along with instant company registration, 500 visas and many other facilities. Investors even recover their investment by rental labor.
10. There should be coordinated working of federal and provincial BOI.
11. Cost of doing business in Pakistan should be brought down and every effort in this context should be transparent and must have some visible impact.
12. Government should provide law & order, gas and electricity and leave the labor productivity to the businessmen. Tawarki Steel has invested about US\$300 Million and they are unable to operate in Pakistan due to gas shortage.
13. BOI should facilitate the existing investors to attract more investment.
14. BOI should ask State Bank of Pakistan to re-visit the policy framework with regards to foreign currency accounts from investment promotion point of view. It may make certain amount to be spent within Pakistan and repatriate the rest.
15. Investors should be provided concessional utilities at least till breakeven point. To attract speeding investment in the given circumstances, there may be arrangements like Independent Power Producers (IPPs) where assurance can be given to investor that their produce will be procured like electricity.
16. Security of investors has gradually become very important in big cities like Karachi. Life is most paramount factor for everyone especially investors.
17. The meeting ended with a note of thanks to [REDACTED] and his team.

#### **14.17 Minutes of Meetings with [REDACTED], Ex-Chairman Federal Board of Revenue and Board of Investment held on 27 November 2012**

##### **PARTICIPANTS:**

1. [REDACTED], chairman BOI & Federal Board of Revenue
2. [REDACTED], Public Sector Investment Policy Specialist
3. [REDACTED], Director Advisory Services, Grant Thornton Pakistan
4. [REDACTED], Project Coordinator, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. Grant Thornton briefed [REDACTED] about the background of the assignment and sought his input on the two key questions firstly "What should BOI be doing to best represent its objectives and goals" and secondly "How do you feel that BOI

would be able to best achieve this” in addition to key areas you suggest we should strengthen.

2. [REDACTED] provided the background of investors' physiology that they look at a country from regional prospective and then overall policy framework of a country encompassing foreign, economic, regulatory policies etc, where Pakistan is handicapped. Prospective investors keenly observe are how we are behaving with existing investors. He quoted the example of a Malaysian power sector company whose power-purchase-agreement has lower tariff than its gas-purchase-agreement. This problem could have easily been resolved within ministries but not being resolved in last one year and thereby sending very bad message to other foreign investors. BOI could have achieved more millage on image-building by resolving such issue than spending money on promotional activities.
3. [REDACTED] continued that after 18th amendment, issues have become more complicated than before since decisions are getting delayed beyond investor's apatite and as such we not only lose an investor but categories of investors who learn from the experience of others. He however emphasized that provincial BOI are now inevitable and government has no choice in it.
4. [REDACTED] added that BOI should focus on the basic things and improve its product than focusing on marketing. Being under the administrative control of prime minister, BOI should pressurize government to resolve its bottlenecks in the larger national interest. Investment inflow is a market function and flows towards favorable destinations.
5. Answering the query regarding the framework/mechanism within the government to assess the overall domestic needs for industrial development, identify priority areas on logical grounds, planning for addressing the national needs, he told that there is no such dedicated institution.
6. In the context of Special Economic Zone Framework, [REDACTED] commented that we must not be repeating the mistakes of past. He shared his adverse experience with regards to Chinese specific economic zone in Punjab which could not be materialized despite fiscal incentives. He insisted that Pakistan must adopt some success model to be successful.
7. [REDACTED] suggested that BOI should consider some technology based solutions to bring transparency and efficiency in its working. He quoted the example of NADRA, electronic number plate issuance system and FBR's NTN system which has minimized the possibilities of corruption and inefficiency and in driving performance.
8. The meeting ended with a note of thanks to [REDACTED].

#### 14.18 Minutes of Meetings with [REDACTED], Ex-Secretary Board of Investment held on 27 November 2012

##### PARTICIPANTS:

1. [REDACTED] – Ex-Secretary BOI
2. [REDACTED] – Legal Consultant
3. [REDACTED] – Public Policy and Investment Consultant
4. [REDACTED] – IT Consultant
5. [REDACTED] – HR Consultant
6. [REDACTED] – Legal Consultant
7. [REDACTED] – Director
8. [REDACTED] – Senior Manager
9. [REDACTED] – Supervisor
10. [REDACTED] – Associate

##### Proceedings/Decisions:

1. After the greetings, [REDACTED] gave his opinion on the current legal standing of the BOI. He explained that the BOI follows the BOI Ordinance 2001 which is structured according to a strict centralized model. There is a requirement for BOI to bring transition its role using a more decentralized model which will work well with a deregulated market environment. This is currently the case in the rest of the world.
2. [REDACTED] pointed out that Pakistan's economy was small and if vision was central and given the rules of business, work could be accomplished practically. This was followed by a comment on BOI having already tried several methods such as franchising & consortiums etc. to attract investment and had been unsuccessful.
3. [REDACTED] answering why BOI has not been successful stated that the fault rested with the centralized system followed by the BOI and there was a need for a paradigm shift.
4. [REDACTED] continued by saying that in order for this paradigm shift, there is a need for BOI to establish/promote provincial BOI, with independent authority and responsibility of handling investments in their respective provinces. Granting these bodies power must come hand in hand with the rule of 10(the Rule of 30 was once used). This means that any investment below \$10 million (\$30 million according to the rule of 30) will be handled by the respective province's BOI; otherwise, it will be transferred over to the central BOI office. It was brought forward in the meeting that there was a lack of infrastructure in these provinces even though Sindh BOI and Punjab BOI offices did exist.
5. [REDACTED] further suggested that provincial governments should be authorized up to a certain level; investment need not require permission of any sort from the BOI. He also recommended that provincial BOI officials be trained by the BOI.

6. It was suggested that young entrepreneurs under the age of 35 with over PKR 10 million worth business to declare themselves as members of the BOI. This would give them the importance and incentive they require to act as an ambassador of Pakistan to promote and attract investment. There might even be an annual award for individuals bringing on board the most 'young entrepreneurs' a year.
7. In order to attract both local and foreign investment, there needs to be good incentives packages.
8. There also needs to be monthly meetings of the provincial BOI with the Chamber of Commerce.
9. █████ continued by saying that there is another intellectual gap, where there is a mindset held by foreign investors not to trust us. We need to strengthen the local investors by making them feel they can trust us and eventually they will pull in foreign investors too.
10. Another issue raised by █████ was that there is profit maximization capability in Pakistan. In order for us to attract investors, we need to figure out a method to maximize profits. This can be done through lowering costs of investors. This may be achieved via carrying out a survey on the costs of doing business in the provinces. This would include the labor costs, productivity and labor laws (hiring and firing is relatively easy in Pakistan). Women should be given a larger role in the workforce through legal protection as this is a hurdle in investment. Bangladesh's textile workforce consists of 90% women. This was a huge factor for the increased FDI in Bangladesh. South Korea did so similarly. Therefore, this should be solved by drafting a good law protecting women as opposed to ones created in the past. Therefore, many of these factors of production must be touched upon in order for this paradigm shift to take place.
11. Training workers through even a 1% of gross profit going towards a development fund could prove very useful. Mexico is a living example of the benefits of re-training a workforce. Pakistan may not be able to control reality or these unmanageable external factors, but impediments can be removed.
12. It was also a prior suggestion to increase the credit line in the agricultural sector. Bold moves would be required at this stage for change.
13. █████ continued by saying that the notion of currency depreciation as a negative needs to be removed and this can be done by making it mandatory for foreign investors to increase exports. This would act as a cushion and would benefit them without reducing profits and company value. This would also be an overall benefit to the country as well.
14. Specific legislation may be implemented to improve labor skill set and productivity with a focus on specific sectors.

15. There should be funds allocated to research rather than wasted on bureaucratic procedures. Emphasis should be given on retaining MNCs in Pakistan, as many have already left due to the deteriorating conditions for investors. BOI should also help & guide existing MNCs in their respective activities.
16. Local GDP of provinces needs to be analyzed. As such an equalization committee must be set up under the constitution. The aim of this committee would be to attain a 25% more GDP in each province in 'XX' (a certain number of) years; as decided by the committee.
17. [REDACTED] emphasized the need to look at specific sectors for the promotion of investment. The BOI should aim to make the investment promotion sector specific.

#### **14.19 Minutes of Meetings with [REDACTED], Chairman Board of Investment held on 21 November 2012**

##### **PARTICIPANTS:**

1. [REDACTED], Chairman BOI and MoS for Finance, Pakistan
2. [REDACTED], Managing Partner, Grant Thornton Pakistan
3. [REDACTED], Public Sector Investment Policy Specialist
4. [REDACTED], Legal and Regulatory Expert
5. [REDACTED], System and Automation Development Specialist
6. [REDACTED], Organizational and Human Resource Specialist
7. [REDACTED], Director Advisory Services, Grant Thornton Pakistan
8. [REDACTED], Legal and Regulatory Expert
9. [REDACTED], Coordinator BOI
10. [REDACTED], Project Coordinator, Grant Thornton Pakistan
11. [REDACTED], Supervisor, Grant Thornton Pakistan
12. [REDACTED], Associate, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. Grant Thornton thanked the Chairman for allocating time for meeting on priority basis out of his busy schedule ahead of his visit to USA.
2. Answering the query regarding enabling regulatory framework, the Chairman informed that he does feel the need to change of BOI Ordinance and as immediate step, BOI have move the application for incorporating BOI as a Chapter in the Rules of Business 1973 which upon approval, which will enable BOI to take its summaries directly to appropriate forums. He instructed his staff to provide a copy of the document to Grant Thornton.

3. In response to the HR query, the Chairman emphasized that he sees strategic role of HR in delivering the mandate of BOI. He expressed his disappointment over the capabilities of present managerial cadre staff and expressed his commitment to ensure provision of professional level staff capable of delivering mandate. He emphasized the need on HR resource to align with what investor is looking for in terms of our capability, behavior and functions. He endorsed the need of hiring high caliber professionals e.g. PhDs, business analysts, IT experts and project managers etc. He clarified that BOI discontinued mentioning of external experts on BOI brochures because of legitimate criticism and court cases.
4. In the context of query on training calendar, he informed that there is no specific in-house training arrangement within BOI but BOI does sends its people on the foreign training programs of government of Pakistan and at times, non-related people goes on training since most government officials prefer deputation in BOI for this very reason.
5. On performance appraisal query, the Chairman commented that BOI is following conventional ACR appraisal system. However, BOI intends to make the same performance based for the professionals strictly hired by BOI and will see how the new appraisal system can gradually be applied to BOI officials coming on deputation from other government departments.
6. On the query on IT system, Chairman identified immediate need of looking into emails system and telephonic response from BOI as these two aspects were highlighted in some World Bank Report. He endorsed the need of proper system for identification, approach, communication, follow up and listing of investment opportunities and investors in addition to proper databases and digital libraries.
7. Regarding non-availability of long term finance to viable projects especially foreign joint ventures; he endorsed the concern of Grant Thornton and supported the idea of establishing some fund for this purpose. With regards to self-sustainability of BOI, he mentioned that BOI has started certain service charges but it expects some funding through Special Economic Zones. Grant Thornton suggested multiple funding of BOI from Government of Pakistan to break the vicious circle within BOI and equip it to take-up the challenges faced in industrial development of Pakistan. Grant Thornton emphasized the need of capable people, management system and enabling infrastructure within BOI.
8. With regards to Special Economic Zone, the Chairman informed that prior to SEZs, government was providing tax incentives on case to case basis but with SEZs framework, it is now level playing field for all domestic and international investors of all sizes. However, the government will continue to provide tax and other incentives to the priority projects of national importance. He ruled out the option of making local partnership compulsory in the lines of Malaysia and UAE to bring under-developed areas into mainstream since government has already allowed 100% ownership but

nevertheless government will encourage establishment of SEZs in far flung underdeveloped areas.

9. The meeting ended with a note of thanks to the Chairman BOI.

#### **14.20 Minutes of Presentation Meetings with Board of Investment's Management Team headed by [REDACTED], Chairman held on 21 December 2012**

##### **PARTICIPANTS:**

1. [REDACTED] – Chairman BOI
2. [REDACTED] – Secretary BOI
3. [REDACTED] – Director General Asia, Africa & Pacific
4. [REDACTED] – Director General
5. [REDACTED] – Director General Policy & Planning
6. [REDACTED] – Executive Director General
7. [REDACTED] – Director Administration
8. [REDACTED] – Coordinator Board of Investment
9. [REDACTED] – Managing Partner, Grant Thornton Pakistan
10. [REDACTED] – Director, Grant Thornton Pakistan
11. [REDACTED] – Coordinator Grant Thornton Pakistan
12. [REDACTED] – IT Consultant, Grant Thornton Pakistan
13. [REDACTED] – Legal Consultant, Grant Thornton Pakistan
14. [REDACTED] – Associate, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. After the greetings, the [REDACTED], Director Grant Thornton team started the presentation on the Draft Report being deliverable under the Task Order 1 under BOI Restructuring Assignment.
2. The BOI Team recognized the facts that the targets provided in the New Growth Strategy and FDI Strategy of Pakistan are too ambitious and unrealistic in the given economic conditions and ground realities of Pakistan.
3. It was agreed that BOI should make much more efforts to take private sector into confidence to boost local investment in the country. The Secretary BOI however claimed that despite lack of support of private sector, BOI has done substantial work in promoting FDI in EPZs, Hattar zone etc.
4. The Chairman BOI clarified that although some target sectors are not discussed in the FDI strategy, work is still being conducted in them e.g. Pharmaceutical sector etc.



5. The Chairman BOI appraised that in the past the BOI has experimented the options of transforming BOI as Ministry by putting it in Ministry of Privatization & Investment and also, BOI was also put under the Ministry Industries & Production. Ultimately, in the context of empowerment of BOI, Summary has now been moved for adding BOI as Chapter in the Rules of Business of the Government under the 1973 Constitution which, upon approval, will enable BOI to take its Summaries directly to the concerned forums.
6. In the context of One-Window Operations of BOI, the Chairman informed that did made efforts to do the same by hosting other ministries officials in BOI as well as deputing BOI officials in other ministries/departments but this did not work.
7. **Mr. Shahid** informed BOI team the outcome of his meetings with the FATA and Sarhad Chambers of Commerce & Industry, and their comments on achieving success for BOI included four aspects, namely:
  - a. BOI should be a one stop shop
  - b. BOI should have specific targets for Investment
  - c. An effective database be created with information on Investment opportunities
  - d. BOI should have an effective team of qualified professionals for its functions
8. The Secretary commented that Chambers have not been instrumental in generating Investments.
9. The Secretary BOI said that since local investments is not being accounted for in the official statistics; the full level of domestic investment in Pakistan is not reflected and only the net FDI (gross receipt minus gross payments) is reported by the State Bank of Pakistan.
10. On the remarks of Overseas International Chamber of Commerce regarding cancellation of their arranged international investment conference, the Chairman BOI clarified that the same was cancelled by then Prime Minister and not any fault on the part of BOI. [REDACTED] however emphasized highlighted the need to have adequate OICCI representation in the Board because of its past successes.
11. [REDACTED] told that as discussed by the Chambers, they are often not allowed to hold conferences without permissions from BOI. The Chairman iterated that the Chambers have in fact no hurdles or permission requirements from BOI and they are free to hold any conferences.
12. The BOI Team endorsed the identified challenges and recommendations thereof in the Chapter on the HR and Organizational Structure as provided in the draft Diagnostic Report of Grant Thornton.
13. [REDACTED] stressed on the need of IT to improve communication gaps with ministries and that Investment Promotion will improve only when these hurdles are removed.

14. The Chairman highlighted the importance of financial empowerment & sustainability of BOI in the light of current macroeconomic and other problems faced by Pakistan where BOI's finances are not on the priority list of the Government agenda. [REDACTED] informed that during the present phase of study, Grant Thornton has looked into financial aspect from diagnostic point of view and this aspect will be looked into greater detail in next phase while developing detailed Restructuring Plan.
15. Responding to the query of the Chairman BOI regarding timeframe for completion of all the components of the assignment, [REDACTED] appraised that the Phase one of the assignment i.e. Diagnostic Review is complete, the Phase two is expected to be completed in three months upon award and then implementation phase will start that may take six to eight months depending upon the depth & breadth of detailed Restructuring Plan. The Chairman strongly recommended that the Phase Two and Phase Three should start simultaneously and efforts should be made to complete Phase Two in two months.
16. The meeting ended with thanks to the Chairman BOI.

#### **14.21 Minutes of Meetings Held with Director Generals, Board of Investment held on 26 November 2012**

##### **PARTICIPANTS:**

1. [REDACTED] – Director General Asia, Africa & Pacific, Board of Investment
2. [REDACTED] – Director General America & Europe, Board of Investment
3. [REDACTED] – Director, Board of Investment
4. [REDACTED] – Director General, Board of Investment
5. [REDACTED] – Director Administration, Board of Investment
6. [REDACTED] – Coordinator Chemonics/Firms/USAID
7. [REDACTED] – Coordinator, Board of Investment
8. [REDACTED] – Managing Partner, Grant Thornton Pakistan
9. [REDACTED] – Director, Grant Thornton Pakistan
10. [REDACTED] – Coordinator, Grant Thornton Pakistan
11. [REDACTED] – Supervisor, Grant Thornton Pakistan
12. [REDACTED] – Legal Consultant, Grant Thornton Pakistan
13. [REDACTED] – IT Consultant, Grant Thornton Pakistan
14. [REDACTED] – Public Policy and Investment Consultant, Grant Thornton Pakistan
15. [REDACTED] – HR Consultant, Grant Thornton Pakistan
16. [REDACTED] – Associate, Grant Thornton Pakistan

##### **Proceedings/Decisions:**

1. Grant Thornton briefed the Director Generals about the background of USAID led initiative and the scope of work under the present assignment.

2. [REDACTED], Director General briefed about the performance of BOI in the recent years. He told that due to the liberal Investment policies in Pakistan, investors are still coming, even with the law & order situation and energy crises.
3. Regarding the achievability of targets set in the FDI Strategy, [REDACTED] told that they are putting up their best efforts. The law & order situation has been identified as the main factor to decrease FDI since 2008. Negotiations are underway with Qatar, Turkey and Saudi Arabia to fill this gap.
4. [REDACTED] added that the Japanese investors have relocated to Taiwan/Thailand etc, but negotiations are in the works and they are expected to return. The Chinese investments are increasing and doing well in Pakistan.
5. [REDACTED], Director Grant Thornton asked the process of setting up projects as foreign investor. [REDACTED] replied that this is a non-issue. Investors can easily purchase land after setting up a company in Pakistan, and buy in the name of the company. Moreover, leasing is also an option. Projects can be undertaken directly, or through competitive bidding. BOI is just the facilitator for specific queries of investors. For example new investments in solar/wind/coal etc will all have different processes. BOI will inform the investors of the exact procedures and who to contact for these issues.
6. When asked if Joint Ventures were possible, [REDACTED] replied in the affirmative and said foreigners can set up companies with local investors. [REDACTED] however pointed out that the current method can lead to money laundering, so investments must be done using caution.
7. It was also discussed that AASR will need to assist BOI in documenting the relevant policies, procedures and methods as currently no documentation exists in this regard.
8. [REDACTED], Managing Partner Grant Thornton pointed out that currently investors look at policies and not the law before investing. So if they do not adhere to specific policies, there is no penalty. For example, if companies do not make a branch/liaison office, even though they are not complying with the policy, they will have no penalties. There should be a method of penalty, and this should be regulated through law. [REDACTED] admitted this shortcoming and wanted AASR to suggest solutions for this problem. One of the solutions can be to get mandatory letters of permission from BOI before commencing any activity under this company. [REDACTED] said that a proper law and penalty system must be initiated and implemented as is the case in UAE. [REDACTED] added that in order to encourage investor, the current process involves issuing a provisional letter to the investor allowing investments. However, if the investors don't show satisfactory work they will not be issued extensions.

9. [REDACTED] also pointed out that often investors would work on visit/business visas and finish work. They go back without having taken the required permissions, without paying taxes and go back to their home countries without facing regulatory repercussions. [REDACTED] admitted the need for laws to fill these gaps/loopholes.
10. Upon being questioned if foreign investors come directly to BOI looking for investment opportunities, [REDACTED] replied in the affirmative. He said that they involve the relevant embassies for them; however, no organized data exists for specific cases.
11. [REDACTED] also mentioned that a lot of potential investors were asked to invest in Pakistan in the D-8 Summit. However upon further questioning, they admitted that there was no plan beforehand on which potential investor to target.
12. The meeting ended with thanks to all the participants.

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